

# Nation's Business

A USEFUL LOOK AHEAD

DECEMBER 1958

46/12

## WHAT TOP EXECUTIVES SEE FOR '59

A Nation's Business Survey **PAGE 72**

**Inflation:** How great the danger? **PAGE 34**

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You can tell who wants success **PAGE 84**

Executive pay trends changing **PAGE 36**



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Not just recently, but long ago the Bell System recognized the business and national need for basic research and it has devoted a considerable part of its laboratories program to this field.

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benefits beyond their particular application to communications.

An outstanding example was the invention of the Transistor, one of the real breakthroughs in science that come only at rare intervals.

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There is no doubt that the Transistor has been one of the leading

factors in an electronic boom and has helped to create business and jobs in many industries. More than 50,000,000 transistors will be made this year.

The research and manufacturing skills of the Bell System, already organized and at hand, are placed fully at the service of the U. S. Government whenever we are called upon for projects for which we are specially qualified.

Among many present defense assignments is the development of guidance systems for intercontinental missiles.

**BELL TELEPHONE SYSTEM**



# Nation's Business

December 1958 Vol. 46 No. 12

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Permitting men in high government positions to decide what will advance the public good leads to totalitarian system

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ON A GALLON OF GASOLINE—  
DEMONSTRATION PROVES IT!



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# management's WASHINGTON LETTER

► **ECONOMIC MILESTONE** will come by late '60, early '61.

That's when economists see nation's gross output of goods, services reaching \$500 billion annual rate.

Year just ahead is expected to start with \$450 billion rate.

► **THESE TRENDS** are being talked about by top economists in Washington:

Rapid economic climb in months just ahead. Slower rate of growth by next spring or summer.

New surge upward coming in '60.

► **OPTIMISM IS KEYNOTE** of business survey as new year approaches.

Top business leaders surveyed by NATION'S BUSINESS expect:

Increased sales in year ahead.

Higher employment.

Stepped up activity in product improvement, market diversification.

More spending for new plant, machines.

Survey details, sidelights on management problems seen for coming year, page 72.

► **STRONG FORCES PLAN** antibusiness action in upcoming Congress.

To meet this challenge, U. S. Chamber will spearhead action to mobilize businessmen through congressional issue meetings in a dozen cities.

From Washington, team headed by Pres. William A. McDonnell (St. Louis banker) will move first to Philadelphia Feb. 9.

Other stops: Rochester, N. Y., Feb. 10; Toledo, Feb. 11; Atlanta, Feb. 13; Houston, Feb. 16.

Colorado Springs, Feb. 17; Santa Monica, Feb. 19; San Francisco, Feb. 20.

Tacoma, Feb. 24; Butte, Feb. 25;

Chicago, Feb. 26; St. Louis, Feb. 27.

Watch local papers for details in your city. Or write: Aircade, U. S. Chamber, Washington 6, D. C.

► **HERE'S WHAT** will make next month's headline news from Washington:

Eisenhower program--plans for year ahead will be outlined by President soon after new Congress meets.

Government spending--budget report at midmonth will forecast depth of deficit in 1960.

Business future--President's economic

report by late January will evaluate trends, appraise what's ahead.

Watch, too, for special messages.

They'll outline details of Administration's chief proposals.

Clues to future action by Congress will be indicated by flood of criticism following each of these messages.

► **WHITE HOUSE COURSE** is being charted now--these last few days before action gets under way in January.

Staff people are working hard to trim sails against stronger free-spending wind that'll blow in new Congress.

NATION'S BUSINESS editors have talked with staff people, government officials.

Here's most likely action:

President will deplore dangerous implications of growing federal deficit, threat of continuing deficit spending.

He'll point to need for tax reform in future years--after budget is balanced.

He'll ask states to solve their own problems, stop running to federal feeding trough.

And he'll present Congress with biggest peacetime budget ever.

► **CHANGES IMPORTANT** to business will be made in congressional committee lineup.

(Watch for realignment assignments in weeks ahead.)

Two out of three persons going off committees are men generally considered friends of business, men who push for laws good for economic stability.

What's left is stronger bloc of free-spenders, big business opposers.

Legislation that passes will have this flavor.

► **NEW COMMITTEE** lineup will follow these trends:

Senate Appropriations Committee with 12 Democrats, 11 Republicans in Eighty-fifth Congress is likely to have 15-8 ratio.

House Public Works Committee with 19 Democrats, 15 Republicans will move to ratio of 22 to 12.

There'll be some exceptions.

For instance: House Rules Committee traditionally has 8 to 4 ratio.

► **CONGRESSIONAL ANALYSTS SEE:**

1. Lots of thunder, lightning in '59



session of Eighty-sixth Congress.

2. Lot more thunder, lot more lightning in '60 session.

Probable actions:

First session will involve hearings, staff studies, political maneuvering.

Second session will see big increase in do-something-for-the-people (voters) type of action.

Meaning:

Next year's spending record will be short-lived. Even bigger record is prospect for 1960 session.

►HERE'S A HANDY check list of headline issues important to businessmen:

Spending--Upward pressure on all phases of federal programs, some new programs to be proposed.

Taxes--No reductions in sight, some boosts ahead (such as gas tax).

Labor reform--Big talk about this but only weak law passage is expected.

Inflation--Top item for discussion but most likely action (pushing spending up) will be inflationary, not anti-inflationary.

Public housing--Big sums will be proposed for slum clearance, urban renewal, federal money for college housing program.

Wage controls--Big push for boosting wage floor from \$1 an hour to \$1.25 an hour, also prospect for extending minimum wage to other businesses.

Socialized medicine--Advocates want to start with hospital care, nursing home benefits, surgical insurance as part of Social Security program.

Federal support for schools--Biggest push yet for funds.

Redevelopment of local areas--Certain to get far, likely to be vetoed.

Full employment--Many different plans coming in this field.

Water programs--Sizable increase in public power development will be proposed.

Space--Chances are good Congress will vote more funds than Administration will seek.

Farms--New support plans will come up.

Monopoly--Biggest push yet for pre-merger notification law.

►BOOMING BUSINESS--not spending cut--will shrink deficit in year ahead.

Official estimates for 1960 will be made to Congress next month.

Here's informed guess at what you'll be told then:

Spending will be estimated at about \$80 billion.

Revenue might reach \$77 billion.

Note: That's fiscal '60.

Best guess now is that fiscal '59 deficit will be about \$11 billion--though official estimate still is \$12.2 billion.

►BIG FEDERAL DEFICITS are still ahead. How big?

You can answer this if you find answers to two key questions:

How much will Congress add to government's spending estimates?

Can business recovery keep going fast enough for tax revenues to catch up with spending boosts?

Unpublicized thinking in government circles is:

Debt might reach \$300 billion within four years.

It's more than \$281 billion now.

►PROFIT REBOUND brightens promise for good business year ahead.

From lowest point--\$31.7 billion rate in early '58--profits are expected to climb to probably \$44 billion in '59.

That's average expected by economists in Washington.

Item: Profit slide was 28 per cent from peak (third quarter '57) to bottom.

Personal income slipped only 1.3 per cent, wages, salaries only 2.9 per cent.

►RECESSION FALL GUY--the businessman--will pay biggest chunk of what it will take to reduce budget deficit in 1960.

Outlook now being discussed behind closed government doors:

Revenue from corporate profits will rise more than \$5 billion next year.

Personal income taxes will climb about \$3 billion.

Excises can go up about \$1.5 billion.

►SALTING A MINE--modern electronic way--drives defense costs up.

How it's done:

Company hires \$9,000 a year engineers away from other defense companies by offering \$12,000, fringe benefits.

# management's WASHINGTON LETTER

When pool of engineers is assembled, company appeals to Pentagon for contracts "so all this engineering talent won't be wasted."

Prospect: Watch for congressional committee to look into this.

## ►LOOK FOR REGULATIONS on defense contracts to be changed.

Changes Pentagon wants--and is likely to make before month ends--will have far-reaching implications for all defense contractors, could have impact on other government suppliers.

Here's the story now shaping up inside Pentagon:

Under cost-reimbursement type of contracts, defense officials decide what cost items will be allowed.

Such things as certain types of research and development, some kinds of advertising and interest payments aren't counted by Pentagon as allowable costs--although government does for tax purposes.

What Pentagon wants is to use this method of cost determination in all kinds of defense contracts.

Business view of this practice is:

Government officials in effect will be fixing prices on defense contracts, will be determining profits in an industry already suffering from profit-recession.

Ultimate effect, say businessmen who work in this field, will be to drive more efficient companies into other pursuits, leaving marginal high-cost operators to bid on defense contracts.

Look for:

Subject to become hot congressional topic of discussion during committee hearings on 1960 defense budget.

## ►AUTO MEN SEE BRIGHT HOPE in improving credit picture.

What consumers owe on cars is lower than it was 12 months ago.

(Now about \$14.4 billion.)

But what people have to spend, pay bills, save--income after taxes--has gone up by \$5.3 billion.

(Now more than \$314 billion.)

Meaning:

Consumers could boost auto credit outstanding by more than \$1.5 billion before surpassing income-credit ratio of year ago.

## ►IS IT WISE TO CUT COSTS at expense of product quality?

Major appliance maker looked at this problem, decided:

It's better to spend a little more, improve product quality, try to make up higher costs by larger volume, future sales.

Will it work?

Company's management thinks it will, but adds this thought:

Biggest high-cost item business has to worry about today is the high cost of making mistakes.

## ►NEEDED--IMPROVED MEASURE of consumer inflation.

Consumer price index--sometimes mistakenly called cost of living index--shows only what a given basket of consumer items would cost.

Fallacy is belief that consumers always buy same items--regardless of cost.

Truth is:

When price of beef goes up many consumers switch to pork chops--provided they're cheaper.

## ►NEW DIMENSIONS EMERGE with commercial jet age.

One is:

As four-engine giant (nearly 90 tons) skips off runway, it carries more water than prewar airliners had gasoline.

During take-off, engines will gulp 750 gallons of demineralized water (to add thrust for climb), also will drink kerosene at rate of 12,000 gallons an hour.

Note:

Two coasts of North America will be 35 per cent closer when American Airlines begins first transcontinental jet service next month.

►TRENDS: Liabilities of business failures are tapering off, monthly totals running well below high point last April, almost down to year-ago-level. . . . Food prices expected to fall a little in 1959, service prices may go up a little. . . . University of Michigan professor calls deficit spending by government chief inflationary threat to 1959 economy. . . . U. S. is looking for ways to use American business more in foreign aid program.



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# Letters from businessmen

## Not one without the other

I have enjoyed very much reading your magazine over the years, and feel the information included is very timely. In many cases I cannot help but feel that it says things which need saying, but which most publications hesitate to put in print as they do not wish to be "unpopular."

I particularly enjoyed your editorial in the September issue ("Let's Help the Politicians"), and feel that it spells out very clearly the crux of many of our current problems.

As you point out, this nation was founded as a democratic republic, though at the time it was founded the emphasis was on the republic. Since the days of the New Deal, there has been a concerted effort on the part of the bureaucrats to reverse this emphasis and unfortunately they have succeeded to a great extent.

However, they are actually trying to dupe the people into believing that they can enjoy all the privileges of a democracy but that they need not worry about any of the responsibilities. The line is—"Just leave everything to us, we will do all your thinking and spending for you." The New Dealers are attempting to prove that the socialism which they are attempting to foist upon the people is really this democracy of which they speak.

Somehow the American people must be made to realize that they cannot abdicate the responsibilities which go with a democracy unless they also wish to give up their freedom.

R. D. OLDFIELD, JR.,  
Sales Manager,  
Ohio Screw Products, Inc.,  
Elyria, O.

## Draft law waste

Having finished a reading of your informative article "Draft Law Issues: Waste, Unfairness," I cannot resist this opportunity to comment on what appears to be an erroneous impression regarding military Ready Reserve components. You state that there are more men eager to draw drill pay than . . . vacancies in these components, and you further imply that two-year draftees sub-

ject to the 1955 Reserve Forces Act can avoid compulsory active reserve duty merely by failing to attend the regular postgraduate drilling reserve meeting "which ostensibly is required . . . by the 1955 law."

The fact is that there are many thousands of older men, including myself, who were drafted under the 1955 Act, have served two years on active duty, and are nevertheless, compelled to attend weekly reserve meetings and two weeks of full-time active duty training during each summer for two additional years—this notwithstanding the fact that many of us are between the ages of 26 and 30 years.

It is hardly disputed by any obligated reservist, nor could it be disputed by any honest person with personal knowledge of the facts, that the reserve program is a tragic waste of men, material and funds. It provides no compensating benefit to the nation. Nevertheless, this monumental waste of time is imposed on the 26-30 age group after two years of active duty, while other men in the same age group are, as a practical matter, exempt from the draft altogether.

If there are men eager to participate in the reserve program, why then are these men not accepted to replace those obligated to serve against their wills? While it is doubtful that the quality of the reserve program would be improved, at least the morale of the participants would be raised.

C. DONALD MOHR  
Rogers, Hoge & Hills,  
New York, N. Y.

## Sophistication needed

"Business Needs Mature Auto-crats" [September issue] casts the argument in either-or terms. The heart of the problem, in my view, is that we lack the philosophical and research sophistication necessary to an intelligent appraisal. As a country, we characteristically demand that things be translated into either-or terms; this is the "practical" way. We don't want to be slowed up by having to contemplate the limiting and defining conditions under which, say, research showed a "democratic"





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leader to have produced superior results. . . .

American business needs a good deal more sophistication in appraising the value of research findings and programs urged upon it—that, and a lot less of the antagonist-protagonist/either-or thinking to which it is subjected.

PATRICK L. SULLIVAN  
Edward Glaser & Associates,  
Berkeley, Calif.

### Hup, hup!

UNCLAS FROM ORDDW APL  
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COMMANDER  
Redstone Arsenal,  
Redstone Arsenal, Ala.

►Sent.

### The best

The article in the November issue, "Choose Cost Figures for Better Decisions," was the best on the subject that I have read.

ROBERT CLOWES  
Vice President,  
Maday Body & Equipment Corp.,  
Buffalo, N. Y.

### What's short

You state in Management's Washington Letter for October: "Strategic stockpile is filling up. Of 74 items, government has adequate supply of 63." What are the 11 items not in full supply?

GEORGE MUSICK, JR.,  
Denver, Colo.

►Amosite asbestos, Jamaica type bauxite, small diamond dies, metallurgical fluorspar, jewel bearings, chemical grade manganese, muscovite block mica, muscovite film mica, palladium, selenium, silicon carbide.

### Company creeds

I would appreciate knowing whether a copy of the new publication of the American Management Association, Inc., on "How five successful companies developed creeds, and how these documents have been used as practical guides for corporate policy and practice," referred to on page 92 of the September NATION'S BUSINESS, is available. If so, could you please tell me where I should write to try and obtain a copy?

C. C. RIGSBY  
General Manager,  
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►Write to Theodore B. Dolmatch, publications business manager, AMA, 1515 Broadway, New York 36, N. Y.



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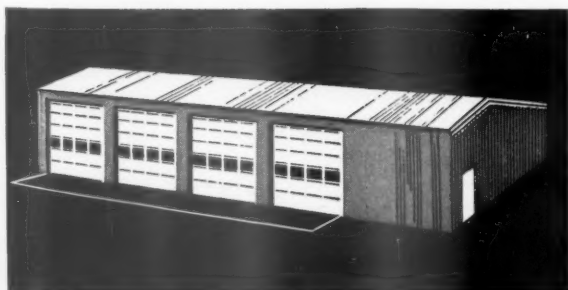
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## 1959 WARNING from The Wall Street Journal

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THIS ISSUE**

## U. S. seeks private foreign aid

### Congress and government agencies study ways to increase business participation

GOVERNMENT is making a new effort to encourage business to take a more active part in the economic war with Russia. Among the activities aimed at this goal are:

A subcommittee of the House begins hearings this month on possible tax incentives to induce businessmen to invest private capital in underdeveloped countries.

The State Department is working to come up with specific suggestions for encouraging more private investment in needy areas overseas.

The International Cooperation Administration, which administers the nonmilitary side of our Mutual Security Act, is taking a critical look at its own operations in the area of stimulating more private money abroad.

A committee of the Business Advisory Council of the Commerce Department is studying methods for similar investment stimulation.

At a November meeting of the Colombo Plan nations, President Eisenhower stressed the importance of private resources in helping underdeveloped nations.

He said the government cannot afford all the money that is needed to help economically less developed areas.

"If this country is to be of greatest help to less developed countries, therefore, its private resources will need to be drawn upon to the greatest extent possible," the President said.

Exactly what will come of this surge of activity is uncertain, but the effort is directed at finding means to overcome obstacles that now prevent business investment in underdeveloped countries. Such private investment, it is hoped, would reduce to some extent the need for federal aid from U. S. tax dollars.

A survey of businessmen with overseas interests made by the U. S. Chamber of Commerce showed the major needs to be:

1. Reduction in U. S. taxation on business profits abroad, particularly on profits of subsidiary companies.

2. Concerted efforts to persuade local governments to ease restrictions on foreign investments.

3. Long-term loans to local private enterprise instead of on a government-to-government basis.

4. Vigorous efforts to influence foreign governments to favor private enterprise.

Actually, American investments in foreign countries have been increasing. Latest figures from the Commerce Department show that, in 1957, U. S. private foreign investment rose \$4 billion to nearly \$37 billion. Estimates for 1958 put the figure at \$40 billion, maybe more. Most of these investments, however, were in Latin America, Europe and Canada. The State Department would like to see American business increase in some of the more underdeveloped areas.

Viewing the problem realistically, those encouraging business participation abroad agree that a U. S. firm must make a profit if it is to go into a foreign country. If the country is so completely underdeveloped that port facilities and transportation are inadequate, communication is difficult, health hazards exist and the population from which the businessman must recruit labor is unskilled, there is little justification for the U. S. company's investing its money and energies in the country.

In many countries, these conditions exist, along with the problems of the possibility of war, expropriation and confiscation, international transfer-of-funds problems, local re-

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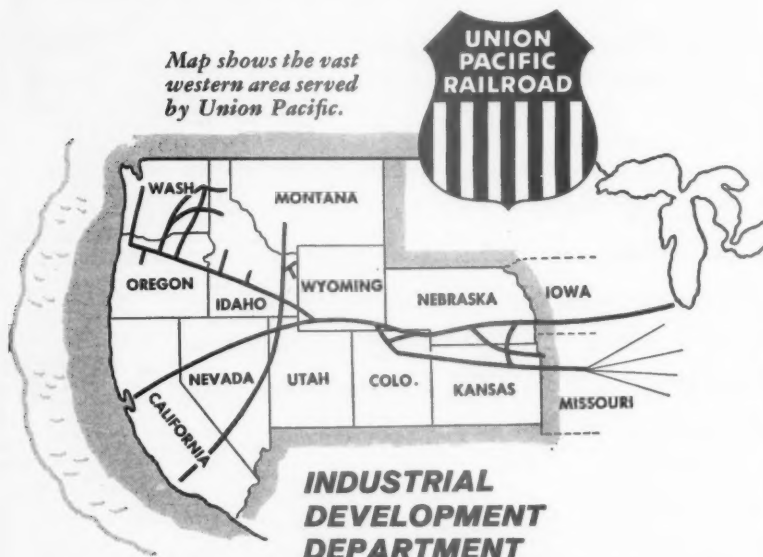


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## FOREIGN AID

*continued*

striction on business operations, trade and tax barriers. Some of these problems, trade barriers for example, may reflect, in part, conditions this country has imposed.

The December congressional hearings looking into these problems will be held by a subcommittee of the House Committee on Ways and Means. Louisiana Democrat Hale Boggs, head of the subcommittee, said in announcing the hearings:

"The subject of private investment policy is commanding increasing public interest not only in the United States but throughout the free world. It has not, however, received the careful attention that it deserves. The future prospects for United States private investment abroad are such as to call for intensive examination of public policy in this field."

The subcommittee invited the views, advice and suggestions of "informed and interested persons representing diverse points of view . . ."

The State Department staff is culling through mountains of recommendations and suggestions that have been made in the past for the encouragement of private investment abroad. The actual job of compiling, sifting through, and preliminary evaluation of the suggestions is being done on a contract basis by the Stanford Research Institute.

One suggestion, for example, has come from Donald K. David, Ford Foundation chairman, and chairman, Committee for Economic Development. He suggests "having responsible government agencies contract with private companies and management to plan, build, organize, operate, and train local people for operating business enterprises abroad."

This would mobilize private industry's special experience and skill just as they were brought to bear so effectively to meet wartime defense needs, Mr. David says.

The State Department study is being carried out as a result of an amendment to the Mutual Security Act. The amendment, sponsored by Rep. Jacob K. Javits, Republican from New York, states:

"Under the direction of the President, the Departments of State and Commerce and such other agencies of the government as the President shall deem appropriate, in cooperation to the fullest extent practicable with private enterprise concerned

*(continued on page 21)*





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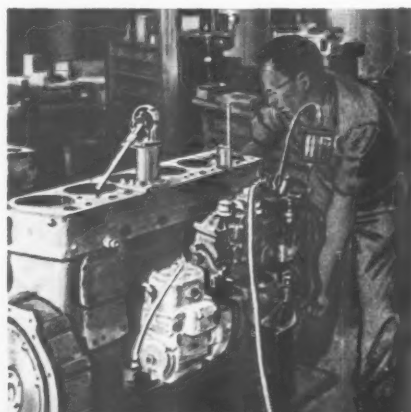
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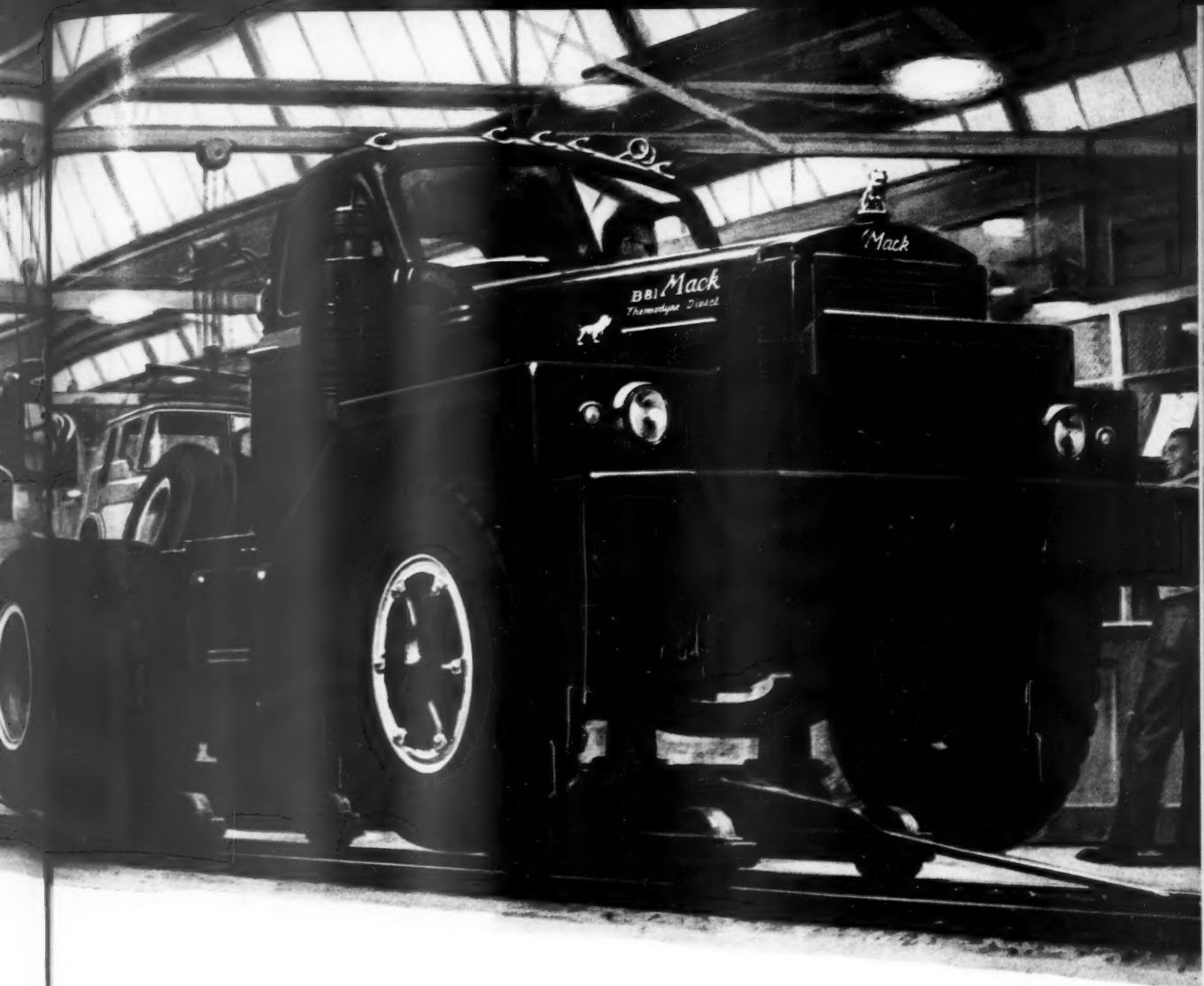
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## FOREIGN AID

continued

with international trade, foreign investment, and business operations in foreign countries, shall study the ways in which the role of the private sector of the national economy can be more effectively utilized and protected in carrying out the purposes of this Act, so as to promote the foreign policy of the United States, to stabilize and to expand its economy and to prevent adverse affects, with special reference to areas of substantial labor surplus. Such study shall include specific recommendations for such legislative and administrative action as may be necessary to expand the role of private enterprise in advancing the foreign policy objectives of the United States."

The State Department study is being supervised by Ralph I. Straus, a director of R. H. Macy & Co., who, as a special consultant, will report directly to Under Secretary of State for Economic Affairs C. Douglas Dillon. Mr. Straus told NATION'S BUSINESS his target date for completing the study and coming up with specific recommendations is mid-January.

The ICA, in taking a sharp look at its own operations, recently concluded in a staff study that, "There are known and accepted methods for accomplishing this goal [of fostering private enterprise], but ICA is at present failing to make adequate use of them."

The ICA listed five general problems that are causing it to fall short of its goals:

1. Objectives and policies are inadequately defined.
2. General responsibilities are dispersed throughout the agency with overlapping functions and without central direction.
3. Inadequate staffing and funds have been provided in ICA, here and overseas.
4. Procedures have not been developed and issued.
5. In spite of widespread concern with the subject, there has been a lack of status, priority and attention given ICA activities in this field.

Although the outcome of the talk and activity in the field is uncertain, one thing is clear: The trend is definitely toward more investments by U. S. businessmen in foreign countries. And, though this is a strong trend, action in this area generally is slow, and overseas investments are likely to continue being a growing trend—not a boom. **END**



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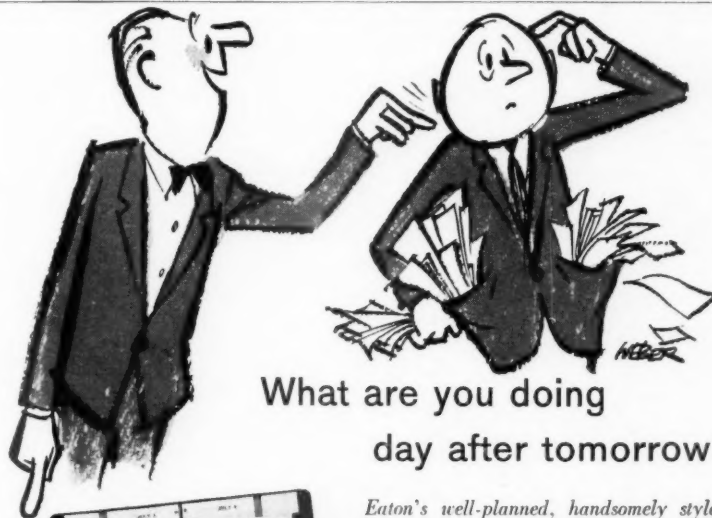
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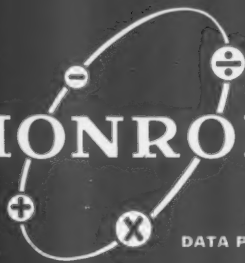
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# The state of the nation

## Ike's influence on Congress strengthened

A MONTH FROM NOW the convening of the Eighty-sixth Congress will reveal that President Eisenhower is in a stronger position than the election statistics indicated a month ago.

The uniqueness of our political system was never more strongly emphasized than it was by the interesting results of that election. In the new Congress Mr. Eisenhower will be confronted, in both Houses, by what looks like overwhelming opposition strength. The November voting did not remove any of the enormous responsibilities that weigh upon a President of the United States. But it weakened his power to meet those responsibilities as he himself thinks best.

In no other important nation could such a situation exist. Under a dictatorship, like that of Soviet Russia, the popular expression of opinion critical of the Executive could not even be voiced, much less made effective. And in a parliamentary democracy, like that of Great Britain, an election so adverse to the Prime Minister would have brought his immediate resignation. Only in the United States can there be such a potential deadlock as we see in this country now between those who make and those who administer the laws.

• • •

Yet, now that this election is history, its anomalous results are causing no great perturbation and indeed are not regarded by Americans as at all extraordinary. Although the party of the President has never been more feeble numerically than it will be in the next Congress, many Chief Executives have been left seemingly powerless by the results of midterm voting. The existing situation is indeed a wholly natural consequence of our constitutional system of divided and balanced powers. It was foreseen, and not regarded as a defect, by the Founding Fathers. Their belief was that loyalty to country here would always prove stronger than loyalty to party, thus producing unity even though

deadlock might seem probable. Foreign students of our governmental system have been less optimistic. For the most part they have thought it a serious weakness that the Congress should be able, as today, to organize under a political leadership hostile to the President. It has even been predicted that we would have to amend the Constitution to prevent this anomaly. Yet the fact remains that in this and every other fundamental our Constitution stands as written in 1787, since when the organic law of every other nation then existing has been altered, often many times, out of all resemblance to its Eighteenth Century form.

One reason for this unusual political stability, in the case of the United States, is that partisanship is seldom really bitter here. Parties do not, at least as yet, officially represent class, clerical or social interests, as they grew up to do in Western Europe. We have not maintained the original hope that

**By Felix Morley**



FRED J. NARCON

## TRENDS continued

there would be no permanent political parties in this country, and that the best man for a position would win on that count alone. Nevertheless, the independent voter is still a factor of enormous importance in our elections. There are signs, unfortunately, that organized labor now seeks to take over the Democratic Party as its own. Other signs indicate, however, that any such effort to create a vested interest party would split, rather than strengthen, its organization.

Underlying political stability characterizes our system, almost regardless of the fluctuating results of periodic elections.

That is why the position of President Eisenhower is today much stronger than the division of seats in the coming Congress indicates. The Democratic opposition is simply unable to wield effectively the power that it seems to possess. Because it has no single accepted leader, and no nationally defined or definable policy, the political strength of this strongly majority party is currently much more apparent than real.

And this, again, is something which our European friends find difficult to understand. In Great Britain, for instance, a general election may come with as little as three weeks advance notice. Therefore, the opposition must have a recognized party leader and, indeed, an entire shadow Cabinet, ready to take over if the electorate votes for a change of government. On Nov. 4 such a change was not an issue here. Every voter knew in advance that a Republican would be in the White House at least until January, 1961.

Moreover, the fact that there are now heavy Democratic majorities in both House and Senate makes it not less, but more, difficult to identify the next candidate of that party for the presidency. At least a dozen men, mostly senators and governors of larger states, are now aspiring for that honor, with varying degrees of hope. This emphasizes the continuously speculative quality of American politics, the strong appeal of which to most of us is beyond doubt.

As soon as one election is over here—and in the recent case even before it was over—the campaign for the next gets under way. At the moment there is no certainty even as to the next Republican nominee. As for the whole stable of Democratic possibilities, all of them are clearly raring to go. The better the chance of that party's nominee in 1960, the keener the individual effort to get the nomination. By the same token, the more any single aspirant gets to the fore, the more eager his

rivals to nose him out. The horse race analogy is almost inescapable because it so well emphasizes both the jockeying for position, the color, the shifts, the excitement and the underlying good sportsmanship of American politics.

So it would now be difficult to maintain real solidarity in the Democratic Party, even if it were at present united on major issues. In fact, that party is today more deeply divided than at any time since 1860, when it split in two, named northern and southern candidates for the presidency, and thus permitted the election of Abraham Lincoln on a minority vote. The question is whether the Republicans have another Lincoln up the party sleeve, for this centennial.

That party is itself divided, though less seriously, between the modern Republicans who have been the core of Mr. Eisenhower's strength in Congress and the less amenable right wing, which did not do too well at the polls in early November. Indeed it is argued that the President has been helped rather than hampered by withdrawal or defeat of some Republicans. Losses have to some extent improved the solidarity of that party, while Democratic gains have simultaneously stimulated the factionalism which plagues them.

Democratic disunity, indeed, emphasizes the possibility that this party may again, in 1960, have two candidates for the presidency. That would mean a three-cornered contest in which nobody would necessarily receive a majority of the electoral vote. Then the election would be thrown into the House of Representatives. In that circumstance, which has occurred twice in our history, the House delegation of each state has one vote—that of Delaware equalling New York. All responsible Democrats must endeavor to prevent this outcome, thus forcing that party into a position of compromise regardless of its apparently decisive congressional majority.

President Eisenhower can, and undoubtedly will, play one discordant Democratic group against another, thus picking up much more support for particular measures than his party alone can give. The question as to the next G. O. P. nominee, sharpened by the November results, will emphasize the President's own leadership for as long as he holds office. The fact that this period is limited gives him the advantage of no longer needing to make compromises to keep or gain support.

Finally, Mr. Eisenhower, partly because of the Democratic triumph, is at last in a position where he can come out decisively for what he thinks good, against what he thinks bad. Since it is his character so to do, his last two years of office may not prove at all unhappy either for him, or for the nation.



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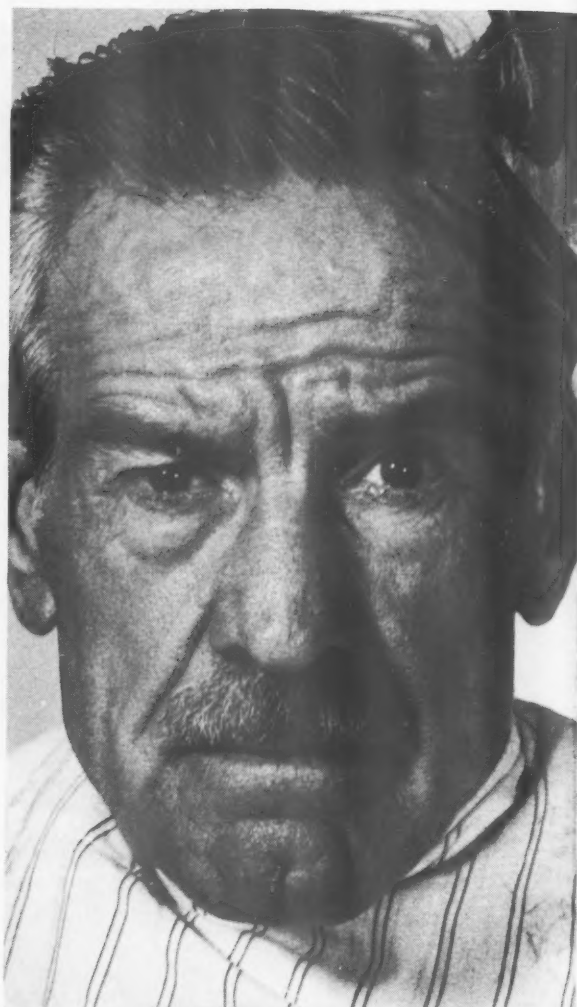
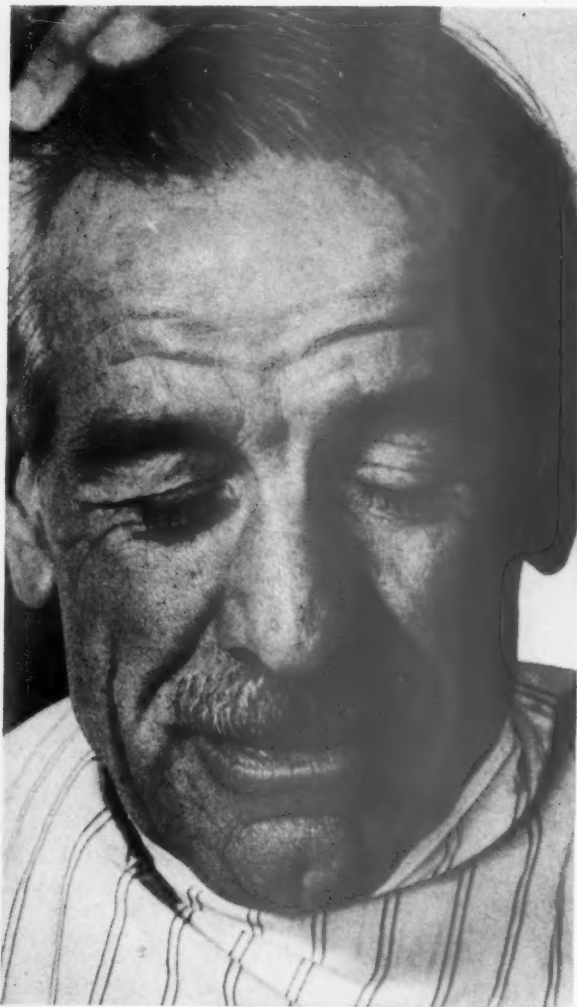
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# Washington mood

### Stage set for 1960 election drama

IN ADVANCE OF THE 1924 campaign, at a time when politicians were speculating on a running mate for President Calvin Coolidge, an agent of the Chief Executive called on Sen. William E. Borah of Idaho.

"Senator," he said, "the President would like to have you on the ticket with him."

"Which end of the ticket?" asked the Lion of Idaho.

The story, which may not have a word of truth in it, is brought to mind by the fascinating situation that has developed in the Republican Party. This is the rivalry that has sprung up between Vice President Richard M. Nixon and Governor-elect Nelson A. Rockefeller.

Neither man has thrown his hat in the ring (publicly at least), but both are now looked upon as red-hot contenders for the Republican nomination for President in 1960. In view of the fact that only one can get the prize, admirers of Mr. Nixon are suggesting that Mr. Rockefeller would make a fine running mate for their hero. A Nixon-Rockefeller team, they say, would embrace the two largest states in the Union, California and New York, and would make a strong and appealing ticket.

That might be so, say the Rockefeller boosters, but like Bill Borah they think they have an even better idea: Turn the suggested ticket upside down so that the name of John D.'s grandson is on top.

It is an absorbing drama, this rivalry created by last month's election, and it is a fresh reminder of the uncertainties of the political game as it is played in the United States.

Four or five months ago, as was reported here, Vice President Nixon seemed to have a clear field for his party's nomination in '60. It was widely taken for granted, by Democrats as well as Republicans, that he would be the G.O.P. standard-



By Edward T. Folliard

bearer. For one thing, he appeared to have no formidable challenger.

Then out of nowhere came Nelson Rockefeller, a Croesus with the common touch, a political newcomer with a magic name, an alluring vote-getter who might turn out to be a new "champ" in American politics.

In New York's "Battle of the Millionaires" for the governorship, he defeated Averell Harriman by more than a half million votes. Moreover, he did it in what was a bad year for Republicans generally, one that saw the Democratic tide engulf nearly three fourths of the states, including Mr. Nixon's own California.

And so, two years before the next great showdown, Governor-elect Rockefeller is not only a threat to the Vice President, he is a threat to the

## TRENDS continued

Democratic Party in its hopes of taking over the White House in 1960.

Taking one thing at a time, and considering first the situation in the Republican Party, Vice President Nixon still is regarded here as the front-runner for the No. 1 nomination. He has been busy for six years ingratiating himself with the Republican professionals, the men who work at politics the year round, the national committeemen and state chairman. In the recent campaign, he did a notable job, traveling as far as Alaska. Also he helped mightily in raising campaign funds.

Surely, he has a right to expect that the professionals will keep this in mind and back him at the 1960 convention. They may do so, but that would be no guarantee that he would get the nomination.

• • •

Generally speaking, delegates to a national political convention have one overriding thought—to pick a winner. He doesn't have to be the best man; that is, the man who might make the best President; it is only necessary that he look like the best vote-getter, the candidate who can beat the opposition candidate in November.

To get a likely winner, the delegates will sometimes defy their leaders, as they did at the Republican National Convention in 1940.

The two top contenders at Philadelphia that year were Sen. Robert A. Taft of Ohio and Thomas E. Dewey of New York; between them they had most of the pledged delegates and the backing of the great bulk of the professionals. The underdog was an amateur, Wendell Willkie.

When it was over, and Willkie had been nominated, there were all kinds of explanations. The most widely accepted one was that Wall Street had put Willkie over. It was true that Willkie had some support in Wall Street, but that wasn't why he was nominated.

The reason was the usual one—the delegates thought he had the best chance to win. They didn't think that either Senator Taft or Mr. Dewey (he had not yet been elected Governor of New York) could beat President Franklin D. Roosevelt in his third-term race. They didn't know whether Willkie could beat FDR or not, but they did think that he would have the best chance.

At the G.O.P. convention in 1952, the favorite of the delegates from a sentimental and ideological standpoint was almost certainly Senator Taft, "Mr. Republican." What licked him was the "Taft can't win" talk in Chicago; that and the popular-opinion polls which showed that General Eisenhower would be the best vote-getter.

The same kind of situation could endanger Vice President Nixon's chances at the 1960 convention. Let the popular-opinion polls at that time show Governor Rockefeller as the better vote-getter, one who could lure Democrats and independents as well as Republicans to his standard, and Mr. Nixon might wind up wondering what hit him.

Needless to say, a great deal will depend on what happens in the two years ahead—on how Governor Rockefeller does at Albany and on what happens in the country and the world. Vice President Nixon is a superb politician, one of the most brilliant Washington has ever seen, and he can be expected to play his cards well.

As for Governor Rockefeller, two years may seem a short time to serve an apprenticeship for the presidency. But it must be remembered that he has had considerable experience in the Executive Branch of the government, serving in the Roosevelt, Truman and Eisenhower Administrations. Woodrow Wilson had been Governor of New Jersey for only two years when he was nominated for President by the Democrats in 1912.

• • •

Turning now to the Democratic Party, most of its presidential hopefuls were made to look better by the Nov. 4 election. The outstanding exception was Governor Harriman of New York, who went into political eclipse.

Sen. John F. Kennedy of Massachusetts was re-elected by a record-breaking majority. Also, he was comforted by the fact that elsewhere candidates who like himself are Catholics did well.

Others who won re-election or helped bring about victory in their states were Sen. Stuart Symington of Missouri, Sen. Hubert Humphrey of Minnesota, Gov. Robert B. Meyner of New Jersey, Gov. G. Mennen Williams of Michigan.

Governor Williams won a sixth two-year term, but his majority was sharply below other years. This could hurt him, along with the widespread feeling among Democrats that he had a too intimate alliance with Walter Reuther.

Sen. Lyndon Johnson of Texas, not a candidate last month, has strong support for the nomination in 1960, but his backers acknowledge that two things could hurt him—geography and his 1955 heart attack.

Adlai Stevenson, a two-time loser, still has his rooters. However, the recent election seemed to indicate that the voters have a fancy for new faces.

All things considered—the Democrats ought to be supremely optimistic about 1960. The fact is, though, that they look ahead to it soberly, in some cases apprehensively. Two things are responsible—the thought of a North-South split in their party over the racial issue, and the thought of what Nelson Rockefeller did in New York.



1.

Bill Lacey smiled, "My plant's insured—I really know the score!"

But one grim day a boiler blew a hole clear through the floor.

Assembly lines a shambles, Lacey couldn't meet his orders.

Insured or not, to pay his bills he had to take in boarders.



2.

Then—Johnny-on-the-spot—a man from Travelers viewed the scene;

Said he to Bill, "Let *us* insure each boiler and machine."

"Fat lot of help insurance was for *me*," poor Bill retorted.

"I've news for you, so hear me out," the Travelers man reported.



3.

"I'll draw you up a plan that pays the *whole* calamity,

Instead of simply covering the mess that you can see.

For fixed expenses, normal profits—Travelers foots the bill;

Until you're back to normal and there's money in the till."



4.

Said Bill, "If I had had your plan I could pick up the pieces—

Rebuild my plant on firmer ground so I'd be rich as Croesus."

So hurry! Call a Travelers man and get his wondrous plan—

Then even blown-up boilers can't make you an also-ran.

# THE TRAVELERS

## Insurance Companies

HARTFORD 15, CONNECTICUT

All forms of business and personal insurance including Life • Accident • Group • Fire • Marine • Automobile • Casualty • Bonds



On the Ohio Turnpike, every mile is

# CONCRETE

...the paving material with no "moving parts" to cause hidden wear!

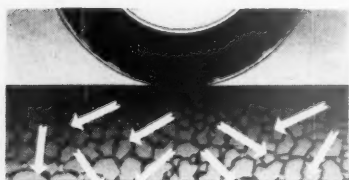


Diagram shows how flexible pavement parts must move. This grinds off corners of aggregate, causes deep wear. Result: low spots, subgrade overloading, failure.

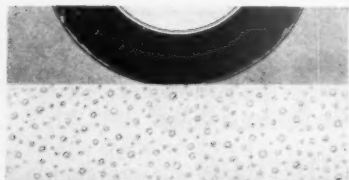


Diagram shows stability of concrete. No internal movement of aggregate and bond. One reason only concrete's load-bearing strength can be computed mathematically.

**\$7,181,898, based on first-cost estimates, was saved by choosing concrete. And now maintenance costs are running about half the original estimates!**

More proof that concrete does the job—and does it for less money. Last year, Ohio's concrete Turnpike handled some 11¼ million vehicles—thousands of them with loads of 70,000 to 90,000 pounds—saved money doing it.

There's a reason. Concrete is

built to *bear* like a beam, not to *flex*. For flexibility means movement . . . movement creates friction . . . friction brings wear that causes a pavement to wear out *inside* as well as on the surface. That can't happen with concrete.

Stability helps give today's concrete its 50-years-plus life expectancy . . . its lasting, flat smoothness. On new Interstate Highways, on all heavy-duty roads, concrete means true economy for taxpayers, both today and in the future.

## PORTLAND CEMENT ASSOCIATION

*A national organization to improve and extend the uses of concrete*

NEW TYPE

# Concrete



# HERE'S LOOK AT TOMORROW'S CONSUMER

Future sales success  
will depend on your  
understanding of  
the new buyer

A NEW GENERATION of consumers is rising with brand new viewpoints on spending, saving and what it wants from life.

This generation's philosophy of living and attitude toward money are different from anything the older generations have ever known. To the new consumer, other elements have surpassed performance and price as sales points. Features which manufacturers and merchants regard as lures have become basic elements of production and marketing.

Indications are that the new buying philosophy will continue through the next generation at least.

Improved communications will help accelerate the present trends by making the over-all patterns of behavior and consumption familiar to all. The consumer will increasingly demand that goods adjust to him. Merchandising will become harder, in that the profusion of competing products will make it possible for the consumer to have many alternatives to any one product.

Manufacturers do not build obsolescence into products irresponsibly. Closer examination suggests this has been done in response to consumer demand. The consumer wants newness. If he can't get advanced styling in the product he is ready to buy, he will choose some other which meets the need for newness and up-to-the-minute sophistication. The task of mer-

chant or manufacturer will be more to attract customer expenditures to him and his products rather than merely to persuade the consumer to part with his money.

The inertia of the economic structure insures that credit will increase in importance to the new consumer as it has been doing for the past 30 years.

In short, the consumer is king. He will continue to reign with even greater power.

Success in today's—and tomorrow's—highly competitive market will depend on how well business can harmonize its own thinking with that of this new consumer.

First step toward such understanding is to put this consumer in focus as a human being, because he is acting less and less like an economic statistic and more like a creature activated by social and psychological currents.

To understand the dynamics and changing values of the new consumer, it is necessary to start with the new young suburbanites, the predominant taste-setters in living and buying today. From these groups are coming most of the fashions and attitudes which the rest of the society is adopting. From these new communities came the vogue for ranch and bi-level homes, for station wagons and second cars, for outdoor cooking equipment and do-it-yourself tools, for sports

## A LOOK AT TOMORROW'S CONSUMER *continued*

coats and casual clothes, for extra phones around the house, for elaborate gardening equipment and personal gymnasiums, for patios and family rooms. All these have since become standards for the whole population.

Also from the suburbs have come a long list of new present-day phenomena: bigger families, nursery schools, group games, male cooking enthusiasts, home-taught musicians, the popularity of summer theaters and local art fairs, casual entertaining, barn dancing, husband-and-wife shopping, deep interest in community projects and neighborhood socializing.

In cities too small for suburbs, there is a similar deep wish for new home ownership on the outskirts which will permit a big yard, big families, and participation in such group activities as block parties.

Informality of dress and manners are everywhere triumphant. One of the principal reasons why the new consumer prefers to do her shopping in the outlying areas is that she is perfectly at ease in her flat heels, car coat, pedal pushers or Bermuda shorts. Casual styling is comfortable, emphasizes her youthfulness, versatility and moderation. These are important values to the new young suburbanite who is molding a new life.

This mass exodus to the city fringes is bringing a tremendous amount of uprooting. Families break their ties to the past and submerge themselves in the new communities.

Their attitudes come from their friends and neighbors instead of their parents. They have become flexible, adaptive, sensitive to change and optimistic. Be-



**The author,** Pierre Martineau, is a nationally known writer and speaker on consumer motivations. As director of research and marketing for The Chicago Tribune, he heads one of the largest consumer research departments in the country. He has conducted recent studies on suburban family life, on buying behavior and public attitudes toward spending and saving.

sides rising incomes there are many deep-seated reasons for their optimism. Social security, company pension plans, unemployment insurance, escalator clauses, and many other developments of recent years provide an insurance for the continuance of today's economic levels. The notable and obvious improvements in the social and economic status of our largest social class, the blue-collar worker, has also contributed toward confidence in the environment.

The man in the street is likewise aware that war and the threat of war have historically had a stimulating effect on the economy. So long as tension exists between the United States and Russia, the average man senses this factor will provide a tremendous economic stabilizer.

The incorporation of such knowledge into the main stream of mass opinion, does, in fact, act as a stabilizer. Philosophers point out that the propositions men believe to be real, are very real in their consequences. The widespread belief that violent fluctuations in the economy are a thing of the past helps to make them a thing of the past.

The break away from parents' ideas also serves to change our former philosophy of security in old age to a philosophy of living in the present. In the old spending-saving conception, spending had all the connotations of waste. Money earned was to be invested so that it eventually would create a nest egg for retirement.

Today, spending means acquiring desirable things and thereby raising one's standard of living. At virtually all income levels the new consumers freely state that they want to enjoy life now. In some cases, middle class families speak of spending money to make money, and advise that you have to spend just a little more than you make to get ahead in the world. Again and again spending is explained as really investment in the future.

In consumer interviews, over and over the new shoppers make clear that they give small thought to the possibilities of future money emergencies. As one optimist states, "If a person has good health and happiness, success and financial gain will follow—so health and happiness are the only things that are important."

The interviewers report of another new consumer: "Both sets of parents are worried about their reckless attitude toward saving. This woman is convinced that it is better to buy on the installment plan the things she might enjoy now than simply watch a bank account grow. Both husband and wife look forward to better and greater things in life but want to enjoy everything possible along the way."

To these new consumers, getting ahead means the acquisition of material things and technological triumphs which they are determined to have.

"My parents did not decorate their home every four or five years as we do. My father feels it is disgraceful the way we spend money."

"I have many more appliances than my parents had. They seem a necessity nowadays—not a luxury."



JOHN BURWELL

## Casual in dress and optimistic in attitude, your customers want good things in life now

Another woman wants things of good quality but also wants to be able to change the style of furnishings occasionally. Still another says the difference between her parents and herself is that she buys new furniture and lamps because "we get tired of looking at them any longer."

In other words, they don't want objects to last forever, but only as long as they are attractive and in style. For such a customer, styling, color and the glamorous extras are often the key to sales success.

In a recent nationwide study, car buyers were asked exactly how they had made up their minds to choose between makes. Forty-three per cent said their decision to buy was based on car appearance. Only 11 per cent said they bought because of some mechanical feature.

Even the most utilitarian items now are styled by professional designers. International Harvester redesigned its complete line of farm tractors to give them greater eye-appeal. These are simply aspects of the

same underlying currents which are shaping consumer taste and buying behavior.

The majority of people are no longer bound by the hard laws of economics and subsistence. Goods are symbols, too, and always stirring the individual is a desire to use the things he buys as forms of self-expression. Today in our economy of abundance, he has a comfortable cushion of discretionary spending which permits him to buy items which will help him to be self-expressive. The performance features he largely takes for granted; now he also wants to know what the article will say about him. Will it reflect him as a sharply etched individual? Will it portray the values of his group?

This wish to be individualistic is a marked trend in the new consumer. People talk about a "personal" automobile and a "personal" radio. Monogramming clothes is gaining in popularity.

The consumer is more and more concerned with the marginal meanings *(continued on page 78)*

# INFLATION: HOW GREAT THE DANGER?

Real threats exist but an analysis of these factors keeps picture in focus

BY JULES BACKMAN, *Economist, New York University*

WARNINGS that we are about to experience a new substantial inflation are tempered now with statements that the immediate prospect is for a lessening rather than an increase of inflation dangers.

An analysis of the forces now at work will help to keep the picture in focus.

Among these forces are:

- Psychological factors.
- Price trends.
- Wage inflation.
- The budget deficit.

Analysis of these indicates that present inflation pressures—which are real enough—may have a limited effect.

We may, for instance, be entering another period such as the late 1920's when inflation was reflected in booming stock prices but wholesale and retail prices were relatively stable.

## Psychological factors

Underlying the present fear of inflation is a conviction that the combination of fiscal inflation, wage inflation, and a national concern over full employment could provide an irresistible combination. Many of our public policies have an inflationary bias.

The failure of prices to decline in the 1957-58 period tended to reinforce this belief as many persons overlooked the fact that such price behavior had also occurred on several occasions in the past. (See *NATION'S BUSINESS*, July, 1958.) The easing of mortgage and installment credit terms also pointed in this direction.

It is claimed that these factors have created an inflation psychology.

The importance of psychological factors cannot be ignored. What is the evidence that such a psychology exists today?

Certainly, no such evidence is available in the actions of consumers or of businessmen. Retail sales or inventory policies have indicated no flight from money.

One Federal Reserve Board official has pointed out that:

"The first signals of inflation can ... [manifest] themselves in distrust of the dollar and a consequent trend to unhealthy speculative tendencies."

In fact, the only area where inflation psychology can be detected is in the securities markets. Many stocks and some of the stock indexes have moved above the peaks of the summer of 1957.

Even in that area, it is not quite clear to what extent the rise in stock prices represents an optimistic appraisal of the magnitude of business recovery and to what extent a flight from money.

Similarly, it is not clear to what extent the decline in bond prices reflects tightening money and a reaction to the speculative boom of last spring and to what extent it is a flight from fixed income securities because of fears of inflation.

## Price trends

The general level of wholesale prices recorded little change between 1952 and 1955. Late in 1955 these prices began to rise. From a level of 110.7 in 1955 (1947-49 equals 100), the index rose to 118.4 in August 1957. After a year of fluctuations

within a narrow range the index was 118.5 late in October, 1958.

	August 1957	October 1958 (1947-49=100)	Per cent change
Total index	118.4	118.5	+0.1
Farm products	93.0	91.0	-2.2
Processed foods	106.8	109.7	+2.7
Industrial	126.0	126.1	+0.1

Similarly, the sensitive price index, which reflects the changes in 22 basic commodities, has shown little change. In August 1957, this index was 89.3 (1947-49=100). Since then it has fluctuated between 84.4 and 87.3. Early in November 1958, the index was about 87. In light of the responsiveness of this index to inflationary influences, its failure to record much change during this period is a significant indication that inflation has not yet taken hold.

Most of the headlines dealing with prices have been devoted to the new highs in the consumer price index, month after month. Less attention has been given to the fractional nature of these new highs. Between August 1957 and September 1958, the consumer price index rose only 2.2 per cent. Most of this rise had taken place by March so that between March and September, the index actually advanced only three tenths of one per cent.

Clearly, the trends of wholesale and retail prices have not yet reflected a new inflationary price spiral, and upward pressures seem likely to be less in the next few months.

In much of the postwar period, there has been an insistent demand for products to overcome the short-



ages built up during World War II and on a lesser scale during the Korean War. We no longer have large backlogs of deferred demand which create strong upward pressures on prices.

American industry built a record volume of plant and equipment during the 1955-57 boom. In many instances the current capacity far exceeds peak levels of demand in the past. For example, the steel industry has a capacity of about 145 million tons—almost 25 per cent greater than the maximum tonnage ever produced in one year. In varying degrees a similar situation prevails in many other industries.

Thus, while a considerable volume of plant and equipment will be built for modernization purposes, there will be less eagerness to expand total capacity as such. In this connection, it may be recalled that the vigorous plant and equipment boom created tremendous pressure for price rises from the demand side during the 1955-57 period. The large surplus capacity also presents a barrier to runaway price inflation at this time.

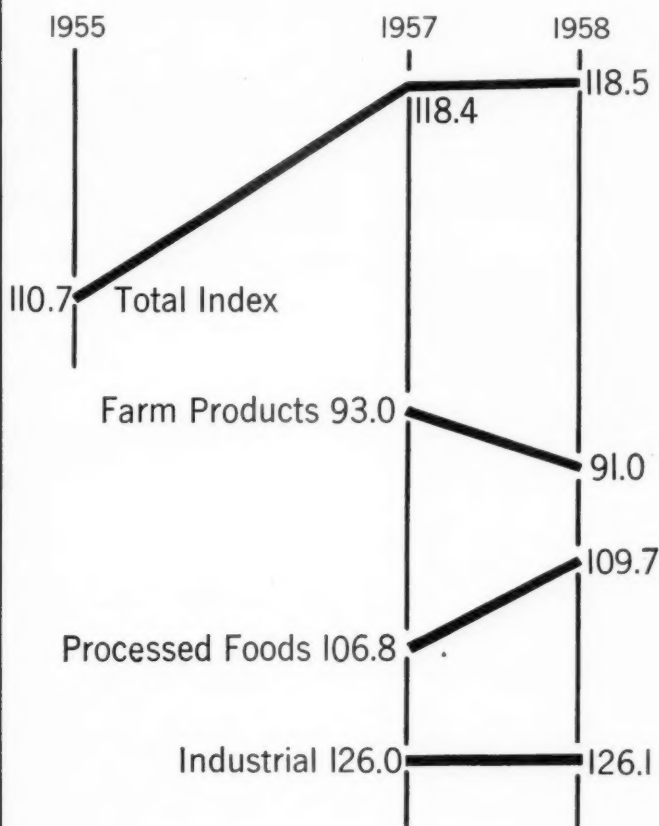
Possible world conflict is another factor which cannot be ignored. The recurrent crises in the Near East and in the Far East provide potential tinder boxes. Should a war break out, inflation is a certainty. However, if war is averted, there should be only minor pressures as a result of these situations. It is interesting to note that the sensitive price index which jumped some 50 per cent during the first six months of the Korean War and rose about seven per cent during the first weeks of the Suez crisis showed little responsiveness to the developments in the fall of 1958.

Farm prices, too, have begun to decline. The current agricultural crop is the largest we have ever had. It is estimated that the output is about 10 per cent above the peak years of 1948, 1956 and 1957. Large supplies of farm products usually are reflected in lower prices—and some declines have already taken place. From a level of 98.5 (1947-49 equals 100) the index of wholesale prices of farm products has declined to about 91. However, this large farm crop has one inflationary effect because it is requiring larger government expenditures to support prices. Approximately one fifth of the increase in the federal deficit is attributable to higher expenditures for agriculture.

The net effect of modifications of the federal price support and loan  
(Continued on page 88)

## Price trends

Among factors indicating that inflation has not yet taken hold is the general level of wholesale prices. These have fluctuated within a narrow range since August 1957. However, we must develop a growing public awareness of the dangers inherent in inflation, whether it be fiscal, monetary or wage. The national objective of a high level employment economy must be supplemented by a national objective to take vigorous actions to prevent inflation.



# EXECUTIVE PAY



SCHATZ-BLACK STAR

Studies indicate more security ahead in managerial compensation, why status symbols are necessary, how salaries will shift for technological personnel. A Nation's Business interview with Dean Rosensteel

# TRENDS CHANGING

*Probably the most penetrating investigation of managerial pay in the country today is conducted by the Executive Compensation Service of American Management Association, Inc.*

*Some 50,000 top, middle and supervisory managers, 30,000 professional and technical people and 20,000 salesmen are canvassed in AMA's half-dozen surveys each year.*

*As director of the Executive Compensation Service, Dean Rosensteel holds a sort of weathervane up to all the complex forces and current trends involved in business compensation.*

*He senses the drifts and developments against a background of 20 years in the compensation field.*

*Mr. Rosensteel has just compiled the raw findings of his latest studies in the field, so NATION'S BUSINESS interviewed him to see which way the wind is blowing.*

**Mr. Rosensteel, what are the most significant developments in executive compensation today?**

I believe the attention top management is giving compensation subjects is significant. Many managements have tied the administration of compensation in so closely with the development of personnel that these two things become inseparable. They are attempting to find the determinants that will place the proper value on management jobs. This attention is primarily given to base salaries. Supplementary forms of compensation receive attention, but not nearly to the extent that companies are attempting to establish a sound basis for what might be called the portion of compensation that is current and produces job security.

This may take the form of job evaluation techniques and systems, or it may be informal establishment of salary ranges for a series of management jobs, in many cases all the jobs in the company, including the president's. The techniques are not so important as the establishment of some kind of a salary plan which serves as a guide to administering individual actions.

**Should each company have a compensation plan that fits its individual needs to get maximum employee incentive and motivation?**

Yes. There are many factors that determine what is best for an individual company.

**What are some basic tests to use in picking a proper compensation program?**

I think that is best answered by stating the elements of a complete salary administration program.

First, the company must set down its basic objectives and policies.

Second, it must have some kind of a formal organization. In other words, the positions have to be oriented and related one to another. Each job in the plan should be described not only as to duties and responsibilities but also as to scope or magnitude.

Third, depending upon the degree of formalization, there must be some plan for analysis of the information, commonly called position evaluation.

Fourth, these things should fit into an established scale of salary ranges that are properly related one to another and reflect the relative importance and difficulty of the jobs.

**What effect did the recession have on compensation of managerial people?**

Our recent survey shows that the effect on salaries was different from the effect on other forms of compensation. For the most part, companies reported they were carrying out their salary policies and procedures substantially as in the past.

There were exceptions, of course, in the industries that were hardest hit by major economic difficulties, or which had government contracts canceled.

The period between increases may have lengthened slightly during the recent year but there is nothing to indicate that the amount of merit increases, expressed as a percentage of base salary, materially changed.

Now, the story is entirely different for incentive compensation or what is commonly called bonus plans. These are based on formulas that have a direct relationship to profit.

Our most recent top management survey included fiscal years ending up through July 1958, which corresponds roughly with the economic recession.

During this period, companies' sales and revenues moved ahead at an over-all rate of about eight per cent.

This favorable trend, however, did not carry through to profits. The over-all profit picture was between two and three per cent ahead of the previous year, but there were very wide variations in different industries.

The effect was that about 49 per cent of the companies paid bonuses. In more (*continued on page 44*)

# TURN IDEAS INTO PRODUCTS

This four-step pattern helps make  
research and development effective

**SUCCESSFUL LAUNCHINGS** of new products do not occur at random. Some firms succeed regularly in defiance of the traditional odds against new products and new ideas.

The companies which do succeed regularly are organizations whose top managements have grasped the importance of these four basic steps in research:

1. *Eliciting ideas.* This requires creation of an atmosphere in which new ideas are welcomed enthusiastically.
2. *Assembling facts.* This means collecting a sampling of pertinent data, not an immovable mountain of information.
3. *Applying logic.* Facts never speak for themselves but must be analyzed in relation to the problem at hand.
4. *Assuring communication.* Both palatable and unpalatable facts and conclusions must flow unimpeded from those producing them to those making decisions based on them.

This formula has been devised by Dr. Myron J. Helfgott, a social scientist, after a five-year study of business use of research. Dr. Helfgott, formerly with Columbia University, is now president of the Package Research Institute, an affiliate of the industrial design firm of Lippincott & Margulies.

For many companies, new products represent the bulk of future earnings. To others they offer the only hope of survival. Last year total expenditures on new product research and development reached nearly \$7 billion. Yet only one out of five new products is a success in the market place, as a national average.

This proportion can be greatly increased by better understanding of the research process as it is applied in the four-step formula.

## **Eliciting ideas**

Social scientists have established that creativity—the ability to come up with out-of-the-ordinary ideas—is basically an unconscious, nonrational process.

They also have found that idea productivity is directly related to the producers' expectation and fear of hostile judgments from those to whom they must reveal their ideas. That is, the fear of hostile judgment interferes with the unconscious, random mental associations which lead to new ideas.

The way to increase the output of new ideas is to welcome them enthusiastically. The enthusiasm is essential.

"The central point in establishing a research project," says Dr. Vannevar Bush, chairman of the board of Merck & Co., Inc., "is that all concerned must have enthusiasm regarding it. Management must be optimistic about the potential value of the new results sought. Members of the research team must regard it as worth doing because a successful handling of it will earn them respect in the eyes of their peers.

"No research staff ever produces to real advantage unless it considers it is doing something worth while."

Such techniques as spark sessions, Dr. Helfgott points out, may sometimes be useful in emergencies, but to assemble employees and demand that they produce a certain number of ideas within a specified period is to treat ideas as if they were procurement items like boilers or clothing dummies.

It is obviously true, he goes on, that you can't run every part of a business under conditions encouraging maximum creativity. Even in research most of the work is straight, rational thinking of the kind that may be called into question at any time and require defending. What is needed is full recognition of the areas in which new ideas are vital and of the fact that those ideas are, by their nature, often incomplete. This makes them difficult to defend, which is why they are easily inhibited by the threat of rigid criticism.

At a recent convention Dr. Helfgott heard a case in point described. A few years ago an aggressive new president took over management of a chain of women's wear stores. One of his first acts was to set up an "idea panel" consisting of several top executives.

Six months later he abolished the panel because it



had not produced a single usable idea. There was excellent reason for its failure. In setting up the panel the company's new head had directed that it was to meet with him for two hours every Monday morning. At those sessions each member of the panel was to present at least one new idea of use to the company. Further, he was to present a full justification for the idea plus an estimate of its cost and of the profits that might accrue from it.

This, says Dr. Helfgott, is a case not of putting the cart before the horse, but of trying to jam them together into the same space. Ultimately, of course, all business ideas must be justified in terms of cost and profit potential. But first, catch your idea. Weighting idea catchers with the full burden of the rest of the task is no way to make them agile.

A well conducted suggestion system comes close to the theoretical ideal. This puts no pressure on employees to produce ideas, merely offers substantial rewards if they can do so successfully. It leaves entirely to the individual the decision on how much effort to spend in justifying his idea.

But a suggestion system is a shotgun prescription for the ailment of idea dearth. The productivity of such a system can be stimulated in various ways but cannot be channeled narrowly. In new product development the need usually is for ideas of a special type.

Dr. Helfgott knows of a rapidly growing metal prod-

ucts firm which has introduced 17 new products in the past five years, 12 of them with indisputable success. This firm solicits ideas from all its employees but gets nearly all the usable ones from a special group. The group includes production workers, foremen and executives. Membership is a much-sought privilege partly because of the sizable bonuses members have earned. Any employee can become a temporary member by demonstrating some capacity for producing potentially usable ideas. He must produce at least one new product suggestion worth some consideration every six months to retain membership.

Bonuses, the company's president believes, may not be the chief reason for the group's strong appeal for his employees. Although nearly all the members spend nine tenths or more of their time on their regular jobs, they are privileged to break routine whenever they want to work on a new product idea. If he wishes, a member can simply present the idea orally at a meeting of the group with assurance that no judgment will be made on it at the meeting. At another meeting a week later the members present their suggestions and modifications.

Or the originator of the idea can develop it as fully as he wants to, enlisting any help that he feels he needs from other members. A production worker might enlist a foreman in arranging for the use of special tools to make his model (continued on page 66)

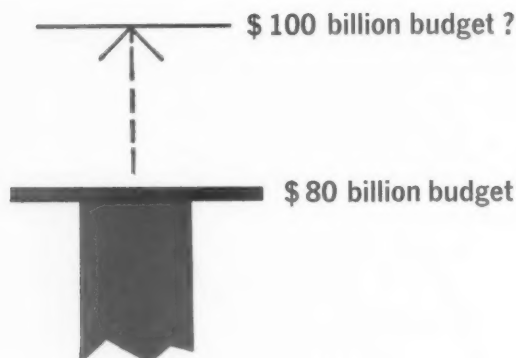


No research staff really produces unless it considers  
it is doing something worth while

# BUDGET BATTLE:

## Keep lid on spending

What economy-minded citizens can do to help hold federal spending to \$80 billion



THE EISENHOWER ADMINISTRATION has a new budget goal. It is trying desperately to keep federal spending from climbing above \$80 billion a year.

No longer does the White House talk seriously of a \$60 or \$70 billion budget in the foreseeable future. Rather there is a grim realization that it is going to take a lot of effort—in government and out—to hold federal outlays to the present \$80 billion, even though that figure would have seemed outlandish for peacetime just a few years ago.

The Administration's budget writers know they face a bitter battle to keep the demands of individual agencies from pushing the President's proposed budget higher than present spending. After that budget is sent to Congress it will be up to conservative legislators, the President, his Cabinet and economy-minded private citizens to put on the pressure to keep the new, heavily liberal Congress from loading on billions of dollars worth of additional projects.

Even with governmental-public cooperation Budget Director Maurice H. Stans says that holding the \$80 billion ceiling, although it is possible, will not be easy.

The shape of any year's budget is to a large extent determined by policy decisions and congressional actions taken a year or more earlier. That is why Administration leaders conclude that emphasis now must be

on holding the line rather than wistfully seeking large cutbacks.

The record shows clearly what they are talking about.

When the budget for the fiscal year ending June 30, 1959, was being drawn up, Administration officials talked hopefully of bringing it down to \$70 billion. Then Russia launched her Sputnik, and there was tremendous pressure within the Administration to beat the Democratic-controlled Congress to the punch on more spending for defense, research, education and other programs. When President Eisenhower finally sent the budget to Congress in January 1958 he proposed that \$73.9 billion be spent in this fiscal year.

On the heels of Sputnik, a recession concern gripped the Administration and Congress. Pump-priming measures were ordered at a furious pace. Congress hiked federal outlays on housing and highways. It voted pay increases for government workers. It said that many existing natural resources projects should be speeded and that others should be started. It voted bigger federal payments to the states to take care of needy citizens. It rejected recommendations for cutting back federal spending on vocational education, urban renewal, water pollution control, rural electrification, college housing and other programs.

To top it off, still higher farm outlays, mounting interest costs and a host of other increases have further changed the picture since last summer. Administration officials say privately now that the actual spending for fiscal 1959 will probably go up another billion, to just a fraction more than \$80 billion by the time the fiscal year ends on June 30.

The result? Only a dramatic and completely unlikely easing of international tensions, with heavy cutbacks in defense spending, can bring spending down much below the new \$80 billion plateau, according to federal budgeteers. And they stress again that the fight will not be to cut spending below that mark but to keep it from inching higher.

This does not mean that the taxpayer must abandon all hope of relief. As suggested in NATION'S BUSINESS last month, rising government revenues from a growing population and an expanding economy can provide a comfortable margin for tax reduction—if spending is held in check in the meantime.

It does mean, however, that the \$80 billion budget will be with us for a while, and that it behooves citizens interested in economy in government to enlist in the battle to keep the budget from swelling to \$85 billion or \$90 billion or \$100 billion. Only if spending stays relatively stable can rising revenues provide the margin for substantial tax reductions; otherwise, rising revenues merely serve to balance rising spending.

Here's the latest rundown on the immediate budget outlook as put together by the President's experts:

For the current fiscal year: Spending, about \$80 billion; revenues, about \$68 billion; deficit, about \$12 billion.

For the 1960 fiscal year, which will end June 30, 1960 (this is the budget that will go to Congress next month): spending about \$80 billion; revenues, \$75 to \$77 billion; deficit, \$3 to \$5 billion.

For the 1961 fiscal year (the budget that will go to Congress a year from January): spending about \$80 billion; revenues, about \$80 billion; budget roughly in balance.

The experts say these revenue predictions are realistic, that federal income can jump that much or more as the economy continues to pull out of the recession. They point out that when the United States came out of the 1953-54 recession, federal income jumped more than \$8 billion in one year.

But, they say, there may be too much optimism in the spending figures. Only vigilance and effort will make those figures hold.

An official put it this way: "As the country's population grows and the economy expands, federal spending on roads and airports and health and many other things is inevitably going to increase. The big fight is to keep the increases from getting completely out of hand and to find areas of economy to offset them."

Among the upward pressures which Mr. Stans and his staff face as they shape the new budget are these:

The Defense Department, egged on by Democrats in Congress, is seeking at least an additional \$1.2 billion for fiscal 1960 over the \$40.8 billion it will spend this year. Military experts (continued on page 60)

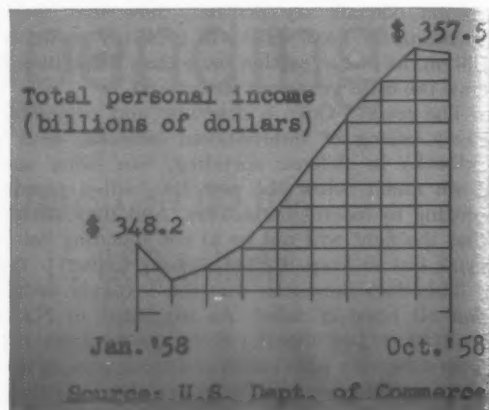
## "As I see it, the American people must decide to . . .

- 1 Maintain national strength until secure understanding with the Soviet can be reached. This can probably only be achieved step by step with slow and gradual reductions in military costs.
- 2 Exercise spartan restraint on proposals for new spending for civil purposes, or for increases in present levels of existing civilian programs.
- 3 Seek all possible opportunities for gradual, long-term reductions in present government activities.
- 4 Increase revenues by reasonable user charges to recover the measurable cost of government services provided specifically to identifiable individuals or groups.
- 5 Take all reasonable steps to encourage the upward growth of the economy, thereby increasing national revenues and gradually reducing the deficit margin. "

MAURICE H. STANS  
BUDGET DIRECTOR

An authoritative report by the staff of the

# HOW'S BUSINESS? today's outlook



## AGRICULTURE

Agricultural exports are likely to decline during 1958-59 for the second consecutive year, despite another bountiful harvest and extension of the U. S. agricultural trade development program.

World import demand for agricultural products is expected to remain about the same. Although many underdeveloped countries need more imports due to population growth, higher living standards and lack of domestic production, reduced economic activity in the U. S. and Western Europe in 1958 has weakened the international market.

U. S. exports during July-September, dropped an estimated five per cent from a year earlier. Cotton shipments, which accounted for much of the early decline, are expected to fall short of last year's 5.7 million bales by roughly 1.5 million. The reduced supply of European milling wheat has increased our export prospects by 30 million bushels, a small fraction of the increase in U.S. wheat production this year. Also, much of the lower quality European wheat will likely be fed and cut into our export market for feed grains.

## CONSTRUCTION

A survey of 212 of the nation's leading economists reveals general optimism for the construction industry for the coming year.

The study, conducted by F. W. Dodge Corporation, showed the me-

dian forecast of the economists to be that plant and equipment spending in 1959 will total about \$33 billion, an increase of six per cent over the latest official forecast for 1958.

These same economists were not particularly enthusiastic about the number of privately financed non-farm housing starts for 1959, estimating 1.1 million as their figure.

In general, the study indicated a feeling that there would be a modest increase in total new construction, with 28 of the economists polled putting the second half of 1959 at \$53 billion or higher.

## CREDIT & FINANCE

The continuing improvement in business activity and an increasing demand for money and credit will bring a gradual rise in interest rates and a return to tight money.

This renewed tightness may first be reflected in a falling off of the sale of state and local government bonds. Sales of elementary and secondary school bonds accounted for \$509 million of the record bond sales total in the third quarter. Other leading elements were water and sewer bonds (\$259 million) and road and bridge bonds (\$235 million). Sales of elementary and secondary school bonds continue to run ahead of last year's record level.

The stock market continues an upward pattern in the face of margin requirements increased from 70 to 90 per cent.

Steel output, construction out-

lays, industrial production have all shown upward pressures within the past few months, indicating a nearly complete recovery.

## DISTRIBUTION

Retailing's Christmas sales efforts are getting an early push this year. Inventory buildup is taken as a sign of merchants' confidence of topping last December's record volume.

Personal income gains are basis of trades' optimism. High farm income has given impetus to sales in many states.

Price hikes may come soon on home furnishings and some appliances. Yet, both government and private sources predict a relatively stable price level over the next six months, with somewhat lower trends in most major food groups.

Cumulative department store sales, running as much as three per cent behind during the first half, have now pulled up with last year's volume. Indications are that last quarter sales will pull the annual total ahead of 1957.

## FOREIGN TRADE

United States exports, which traditionally have supplied about 50 per cent of imports of the 20 Latin American Republics, are encountering increasing competition from other countries. European autos are taking over a large share of the market in Latin America. Western Eu-



# Chamber of Commerce of the United States

rope has become the chief source of some types of chemicals, metals manufactures, and machinery. Goods from Japan are also affording serious competition.

Another factor which has a detrimental effect on U. S. exports is the shortage of dollar exchange in some Latin American countries. These countries are earmarking available dollars for essential imports and diverting purchases of other goods to nondollar areas.

Eastern Europe trade with Latin America has been running roughly at prewar levels. The Soviet Union, by directing its trade to countries having difficulty in disposing of their products at world prices, is turning such trade to its political advantage.

## GOVERNMENT SPENDING

Economy advocates will have a major job to keep federal spending within bounds next year.

Probable new spending proposals, and legislative provisions which prevent or limit the President's discretion in preparing his budget program, will make it difficult to keep the 1960 fiscal budget under \$80 billion. (See page 40.)

These provisions include such items as public assistance programs, some veterans' benefits, payments to retirement funds, agricultural subsidies, unemployment compensation grants, interest on the public debt, and others. They involve expenditures estimated at \$21 billion, or more than 26 per cent of the approximately \$80 billion expenditures expected for fiscal 1960. Adding to the problem is defense spending which may go up about \$2 billion to a total of \$43 billion. Thus 80 per cent of the budget is relatively fixed.

## LABOR

The impact of union success in the elections will be felt when Congress and many state legislatures convene next month.

Seasoned observers see real trouble ahead for business for many years unless businessmen become more effective in selling their viewpoint and helping elect public officials who will support it.

The first and hardest labor attack will be on state right-to-work laws. Unions view defeat of right-to-work

proposals in Ohio, Colorado, California, Idaho and Washington as a mandate for repeal of Taft-Hartley Section 14 (b) which permits states to pass laws against compulsory union membership. Repeal would kill existing laws in 18 states and the measure adopted by Kansas voters last month.

A direct assault on the Indiana law, passed last year, will be made in the Indiana legislature.

Labor lobbyists plan to take the initiative in getting a milder version of the Kennedy-Ives bill through next year. They also expect to get extension of the minimum wage and an increase to \$1.25 an hour.

## NATURAL RESOURCES

The oil, gas and mining industries face the prospect of a determined attack on percentage depletion taxation allowances in the next Congress. Senate debate in the past session showed an increase in the ranks of those who believe that percentage depletion is a tax loophole.

Percentage depletion allowances have a two-fold purpose: 1, Return to the owner of the value of his wasting capital assets, the minerals and oil and gas in the ground; and, 2, an incentive for investing risk capital in a financially hazardous operation.

Because the reserves of a mineral or oil and gas deposit are never fully known until the deposit is exhausted, their capital value is returned to the owner as a taxation allowance of a certain percentage of the annual returns.

The percentage allowed depends on the average risk involved for each mineral.

Unless the percentage allowed by law is fixed too high, which the industry believes is not the case, it does not represent profit and is not a tax loophole.

An unwise reduction or elimination of percentage depletion allowances will divert risk capital to less financially hazardous industries and could cripple domestic mining and oil and gas industries.

## TAXATION

Tax hearings are beginning early. The Subcommittee on Foreign Trade Policy of the Committee on Ways

and Means starts exploratory discussion of U. S. private foreign investment on Dec. 1.

While the announced objective of the hearings is to consider foreign economic policy in its broader aspects, a major facet of this problem is obviously the taxation of foreign source income.

This has been a perennial subject of heated debate both as the law applies to individuals and to business firms.

Three tax problems are most frequently mentioned: 1, Need for a tax differential similar to that now accorded to Western Hemisphere Trading Corporations, which would stimulate desirable foreign investment; 2, deductibility for foreign taxes other than those on income; and, 3, subjection of income from foreign sources to U. S. taxes only when that income is returned to this country.

These and similar problems will be reopened for discussion. On past record, the Treasury can be expected to oppose more than token changes. But some changes are necessary if we are successfully to meet the challenge of the Russian economic offensive.

## TRANSPORTATION

Proposals that states take unified action to simplify and standardize interstate motor carrier requirements could benefit commercial carriers, shippers and the public generally.

Under present practices, one motor carrier complying with the requirements in the 48 states might have to fill out as many as 240 forms. In 31 states, the forms on which carriers are required to file their ICC authority are different; 30 states use differing forms for qualifying fleets of vehicles; 30 states demand different plates, stickers, painted numbers, etc., and 32 states require varied forms of certificates of insurance and indorsement.

Proposals by the U. S. Chamber, the National Association of Railroad and Utility Commissioners, and the Movers Conference of America would provide single, standard forms for each requirement in all states, and a cab card for identification. Such simplification could have a significant public benefit through lower transportation costs.

## A greater part of compensation is now going into base salary to cut down on fluctuations with business cycles

normal, recent years this would have been about 60 per cent.

Furthermore, the bonus payments in different industries range from 10 per cent of salary to, in exceptional cases, more than 100 per cent. They normally average about 45 per cent of salary. In the past year they averaged about 36 per cent of salary.

**Were there significant changes in stock option, profit sharing or other compensation plans of that type for managerial people?**

Not in any material way. Compensation is continuously changing, and companies are continuously searching for methods to produce better incentives. There is no significant change in the attitude toward these developments compared with the immediately prior years.

**Specifically, by how much did executive compensation change in the past year compared with the previous year?**

This is difficult to answer because of the wide range of companies and executives that could be included in the definition of executive compensation, but generally there was no change for top executives.

**In the past hasn't top executive pay increased about five per cent a year as shown by your annual surveys?**

This is true as it applies to salaries, which, incidentally, account for about 80 per cent of compensation paid all top executives.

Bonus payments, being more directly related to profits, fluctuate more.

In a good year like 1955, bonus payments were 15 per cent over the previous year. In a relatively poor year profit-wise, like 1957, they averaged five per cent less than the previous year.

**How will executive compensation increase in the future?**

I think history will show compensation is the same as sales and profits. Once lost, they are gone forever. I don't think there has been a

period when, because of a poor year there was a later acceleration.

Compensation in the middle management group, such as department heads and administrative key people where bonuses are a lesser part of compensation, has not been materially affected.

The executives at the top are really the only ones who have suffered the effects of economic conditions.

**Is there a trend toward making top managers' compensation more resistant to cyclical conditions?**

Definitely yes. If stockholders want to attract and retain the services of men of high caliber, there must be less fluctuation in pay because of economic conditions.

For example, I stated that the range of bonus payments is from 10 to 100 per cent or more of base salary.

Ten years ago, many more companies would have been at the upper end of the range than there are at present.

Even when we started this service nine years ago this relationship of incentive payments to salary was about 60 per cent.

In the future a larger portion of compensation will undoubtedly be in base salaries and a lesser portion in bonus payments for top management people.

**Is it possible for a top executive to have a windfall in a good year with a high bonus and still be protected in a recession as far as compensation is concerned?**

Not under today's management philosophy and controls.

Today there are built-in controls in compensation plans. Some specifically state, notwithstanding all other provisions, that no more than a percentage—such as 50 per cent of salary—shall be paid to any executive.

**What forms of compensation are available for top executives which are not affected by cyclical conditions, as are bonus payments, and**

**which can avoid the high taxes on salaries?**

The form of deferred compensation most generally used is in qualified retirement plans.

The term qualified refers to any plan that permits deferment of compensation to a future period and at the same time is reported and deducted as business expense in a given year.

Our surveys show that currently more than 70 per cent of the companies have such plans.

Our last top-management report shows that an amount equal to roughly 10 per cent of the salaries of the executives involved have been laid aside and contributed to such plans.

Practically all other plans that can provide for building for the future or taking full advantage of benefits in the tax laws take some form of stock ownership.

This has the dual advantage not only of probably deferring taxes but also giving executives a desirable proprietary interest in their firms.

Currently the most popular type of plan is the stock option arrangement permitted by Congress in 1950. According to our most recent data, based on practices in more than 3,500 companies, about 33 per cent of all the companies have such plans.

This figure must be interpreted, however.

Of the larger ones, say those with more than \$100 million in sales, between 60 and 65 per cent have stock option plans.

Of small companies, say those under \$10 million, only about 12 per cent have them.

**Are any other forms of compensation being used more today?**

If there is a relatively new development in compensation generally, it provides for an employee to lay aside a percentage ranging from two to 10 per cent of his salary, which is invested by a central fund. The employee's savings and company contributions to such plans and the earnings of such funds are paid to the individual usually on retirement.

At sizable salaries, and with permissible 10 per cent contributions, these plans can develop into sizable supplementary payments after retirement; or, if you will, methods by which executives can build estates.

**How prevalent are savings investment plans among U. S. companies?**

I would say that among the large companies there might be as many

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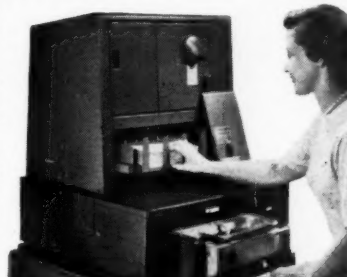
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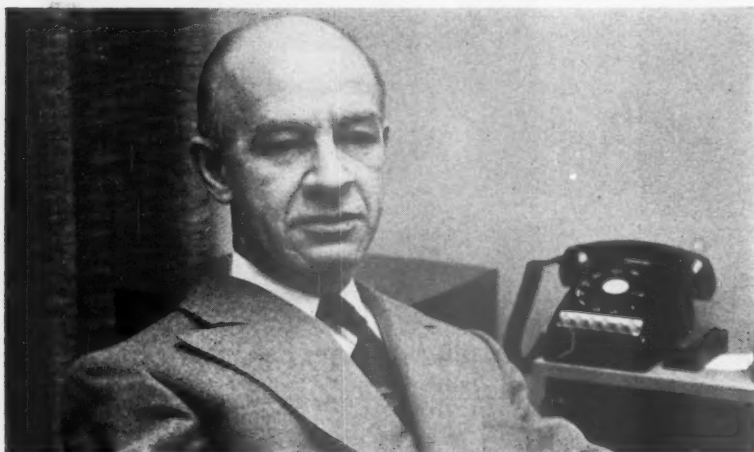
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D-12



## Salesmen's compensation tends toward a salary base with less emphasis on bonus



*Nation's Business interviews AMA's Dean Rosensteel*

as 50 of them, all developed within the past two or three years.

### **Exactly how are the savings invested?**

The employees are usually given a choice between government bonds, investment in a mutual fund, or in common stock of the companies which employ them.

### **How will salesmen's compensation change as the economy picks up steam?**

Seventy-five per cent of salesmen are on some kind of a bonus or commission arrangement. These bonuses are related to the economy so, if the economy picks up, salesmen may fare better than they have in the past.

### **Do you have some figures which would show sales people's salaries in the past year?**

Salesmen's compensation, largely, was in the realm of the unknown until we started our surveys. We are in the third year of making such studies. In the last one the salesman moved ahead at close to the five per cent increase in earnings that we referred to for all other levels of personnel.

There was an interesting development, however, in that salesmen of consumer products, where competition is greater and the economy was better in the past year, moved ahead about seven per cent. Salesmen in industrial goods affected by lower

capital expenditures generally increased only at the rate of about 3.5 per cent.

It was common quite a few years ago for salesmen to be on a straight commission basis.

As selling becomes more difficult, companies have adopted sales development programs which involve careful selection of well qualified people.

As a result there is more emphasis on a sound salary base that will permit a man to maintain a standard of living commensurate with his occupation, and less emphasis on the bonus or commission. Because of the nature of selling, however, this philosophy probably won't go as far as it might in other management levels.

To generalize, I might say that remuneration is roughly two thirds in salary and one third in flexible bonus payments for management people.

For sales people these figures might be 50-50. A salesman might, in a good year, be able to earn an amount equal to his salary.

### **Is this common practice today among companies involved in your survey?**

I am talking about changes that are taking place and conditions that exist in companies that have given this attention, say, within the past two or three years.

### **Will the trend toward giving top**

**executives more security in their compensation, and toward making salary the larger part of the salesmen's compensation, have a dulling effect on incentive?**

No. I believe, as some psychological studies show, that an attractive incentive that has meaning to the individual will bring forth his greatest effort.

For example, take a man at \$8,000 base salary. If you talk to him in terms of a potential of \$4,000 bonus earnings, that's a lot of money.

On the other hand it becomes a little beyond his realm of reality to talk about a \$16,000 or \$20,000 bonus. That might have been done 10 years ago.

A philosophy is developing that bonus earnings of an amount relative to base salary will bring forth a man's greatest effort. It does not have to be an open-end type of bonus.

### **What are the most important factors in determining top executive pay?**

For top management pay, it is, first, the industry in which a company operates; second, it is the size of the company as measured primarily in sales. Further factors include performance and the individual's contribution toward profit and return on investment.

### **How does the rate of change in executive pay compare with the salary and wage increases of technical people; professional people, and production workers?**

The salaries of top executives, middle management executives and salesmen have moved ahead at a relatively uniform rate—about five per cent. This has been about the rate at which the pay of production workers has moved ahead during recent years.

For technical people, because of the great emphasis on technological development and the shortage of scientific people, rates have moved ahead slightly faster.

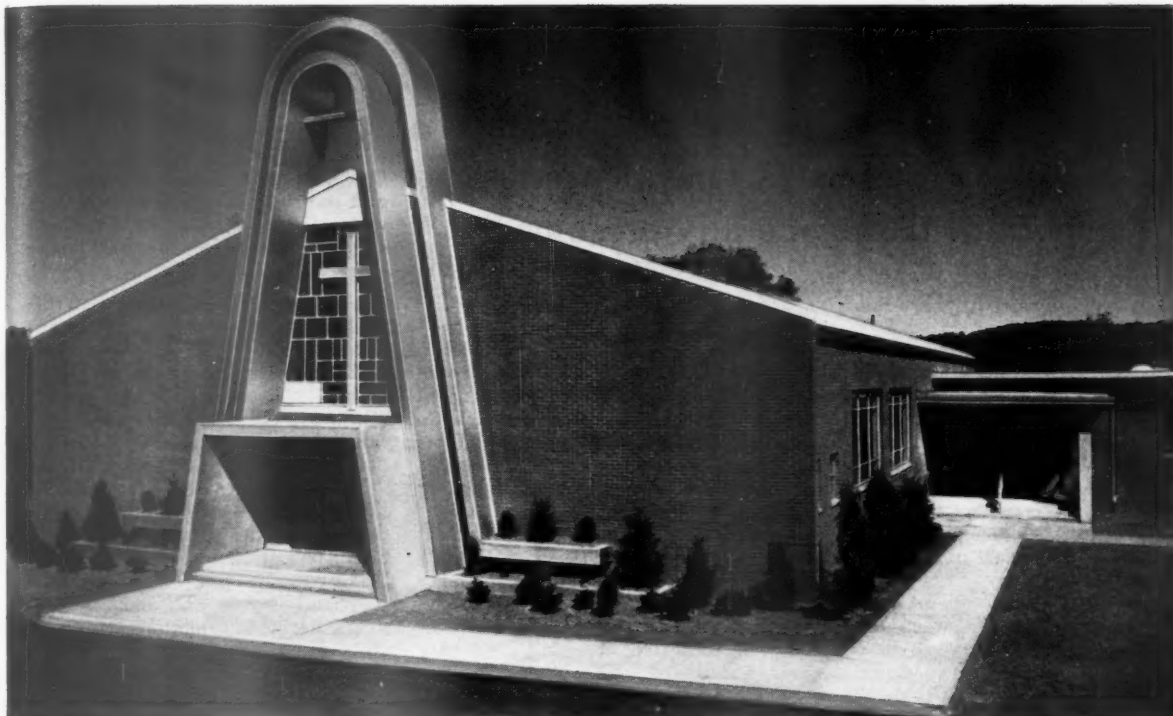
From July 1957 to July 1958, the average compensation of some 15,000 professional people and technical people, has moved ahead at 5.5 per cent.

This compares with about six per cent the previous year. In the year before it was about eight per cent.

### **Do you think the top manager in the next few years will have more freedom in choosing the form of compensation he receives?**

Yes. Incidentally, this gives me





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## Status symbols, though quite common as a form of executive pay, seem less important than generally presumed

an opportunity to inject something that's a new application of an old form of investment which can be used as an incentive.

It's life insurance. Life insurance companies have developed a type of plan that they call split-dollar insurance.

The split dollar means that the executive pays part of the premium and the company pays part. The device that is new about it is that over a period of time the contributions of the executive go down as his need for insurance decreases. The company contribution increases as its investment in the executive increases.

This is not yet widely used. Where it is, it seems to be preferred by the executives themselves and tied in pretty much with their personal life insurance programs.

There's more freedom of choice regarding stock optioning, too: The executive is given a selection as to whether or not he will participate in the plan.

Therefore, there is a slow trend toward executives having a choice in the form of plan that would provide the greatest incentive to them as individuals.

**How important would you say that status symbols are as a form of executive pay?**

We have avoided trying to bring the answer to this question down to facts because it is so informal and it has so many variables.

But since we have received so many questions on it, we are currently surveying the subject and I believe that we will be able to answer some of the questions.

I think the answers will be disappointing to many who believe that great emphasis is placed on these things. Most companies report that they do the logical thing in these respects.

However, there are some rather specific questions that today are not answerable. For example, many companies are decentralizing into product divisions. They have a number of operating heads of these

divisions. There are questions as to what the titles for these people should be. Some companies call them presidents of a division. The title adds dignity and prestige to the job. It is much more common, of course, to use the title of vice president or general manager.

Whether a man should be given the position and title of vice president is often a decision of management interest and in some cases the election to the office is in the form of an incentive.

As to the office—the size, the equipment, and the facilities are expected to vary with level of responsibility.

That is about as far as we have been able to find companies will go in making their statements.

Generally, it would more or less naturally follow that a vice president should have a rug on his office floor, if he didn't previously have such a rug.

Such things are given a lot of attention but are difficult to tie down. In the matter of travel, for example, it is expected that different levels of executives will use facilities that are somewhat commensurate with their standard of living.

For example, it is not expected that a board chairman traveling for the company will necessarily take a roomette.

If he were taking it for himself, he would take a bedroom, generally speaking. That is about it.

I might add that lack of status symbols can be incentive in reverse. It can be an irritation; it can affect performance adversely.

If a man gets a position which is usually accompanied by certain dignity, certain prestige, and they are not forthcoming, the lack of them will gnaw at him.

**Do you see any change in the use of expense accounts or the amount of business expense that is deductible?**

The recent economic forces have caused management to wonder if expense accounts, entertainment costs and so forth are excessive.

Reviews of management policies usually have a long-range effect. Just because the economy is improving, companies will not go back to loose expense account policies.

**Can you give some specific top and middle executive pay figures and various ranges of company size that show up in your latest surveys?**

The ranges are so wide that this question to some extent defies an answer.

Defining small companies as those with sales between \$500,000 and \$1 million, the chief executive officers can be expected to earn somewhere between \$12,000 and \$20,000 a year.

In companies with, say, \$50 million to \$75 million sales, compensation including salary and bonus might be between \$50,000 and \$75,000 a year.

A company in the \$300 million to \$500 million range might pay its chief executive officer from \$100,000 to \$150,000.

The range of pay at the middle management level is roughly from \$6,000 to \$25,000, although in a few cases, pay goes to between \$30,000 and \$40,000 in larger companies.

The general averages are difficult to interpret because as companies grow, the jobs divide themselves.

For example, a \$3 billion company might have 75 or 100 plant managers, and the manager of one of the plants would not be materially different from the plant manager of a small company with just one plant.

So much depends on the size of the plant, the nature of the product, the nature of the process, that it is difficult to quote averages that carry any meaning.

**Is higher pay likely among ranking engineers, scientists and other technical people?**

I think the answer is yes. Generally speaking, the relationship of pay has followed a pattern developed over years.

The chief executive officer is, of course, the highest paid; the second highest paid in most companies is the man in charge of the sales effort; the third man—often interchangeable with the second man—is the financial man.

Manufacturing has followed next. Scientific or engineering effort is generally at the lower end of this hierarchy.

I think undoubtedly, with the emphasis on scientific progress, this will change, and pay levels of these people will become more equal to

# Holiday Dinner

## Appetizers

ver

Louisiana shrimp cocktail

California crab meat


## Soups

Michigan corn bean

Rhode Island chicken noodle

Texas steak

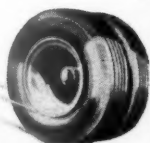
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## Many forms of incentive are now used for motivation of middle management



*Nation's Business interviews AMA's Dean Rosensteel*

the other main functions of running a business.

**Should the form of compensation for staff employees differ from that of line employees?**

This can be answered more specifically for the engineers and scientists than perhaps some of the others. For them, incentives can be provided by allowing them to join professional societies, by allowing the acceptance of an honorarium for accepted articles in magazines, by those things that are not monetary in a major way but would have a significant meaning to the individuals.

Industry is making an effort to give these men some form of recognition. It hasn't taken too concrete a form yet; but it would parallel an honorary doctor's degree from a college, and give a man some recognition by title or in some other way that would set him apart from the others in the work force.

Many of these specialized scientists are never going to have the prestige or status symbols that go with management jobs.

Yet it's the kind of thing that should be recognized.

I think that industry has not developed anything worth referring to for other nonmanagement types of people. They either have to qualify for the management jobs or they reach a level beyond which they don't go.

So far as other nonmanagement people go, the strong incentive—I think the only one of any importance—is the pension arrangement.

If a man reaches what you might call the level of his capacity and sees before him five or 10 remaining years of work at about the same level, the pension is the motivating force that keeps him producing.

**Are there other forms of incentive for middle managers who reach a stalemate?**

The top management job is to keep a challenge before such an individual by changing, to the extent possible, the nature of the work.

Sometimes this means moving a man from one job to another. Sometimes it would mean using a man's background and experience more actively in the fields that might present him with a new challenge and a change.

I think the incentive in many such cases is produced by having a work assignment that provides something in the form of accomplishment that a man can see.

**How would you say such intangible elements as challenge, opportunity to create something, competition, and a fear of loss of job or rank, compare with monetary compensation in motivating managers?**

Many studies have been made along this line. I think the answers could be summarized by saying that

if compensation is fair and equitable, it is secondary to many of these other influences. The real motivating forces stem from some of these things I have mentioned: providing the opportunity for a man to capitalize on what he believes is the fullest extent of his ability.

At higher levels—some external signs can be important—such as use of the company car and the company airplane on business trips. These are status symbols that go with the levels of job.

**Can you give some specifics as to what top management and lower than top management pay will average by, say, 1965?**

I don't believe it is possible to be specific. I think there are two determinants that have a strong bearing on the question.

One is the value of money, or inflation. The other is that pay, particularly at the top management level, is determined by the growth of business. If business continues to grow at about the same rate that we have experienced over, say, the past 10 years, then I think compensation will move at about the same rate.

**Would you consider that there is a squeeze on top executive salaries as far as the rate of increase from year to year?**

No. Not today. Over the past 20 years or more there was a squeeze, the result of political pressures or social philosophies. People asked how a man possibly could be worth more than \$25,000. This has disappeared. There is a public acceptance now of high executive pay.

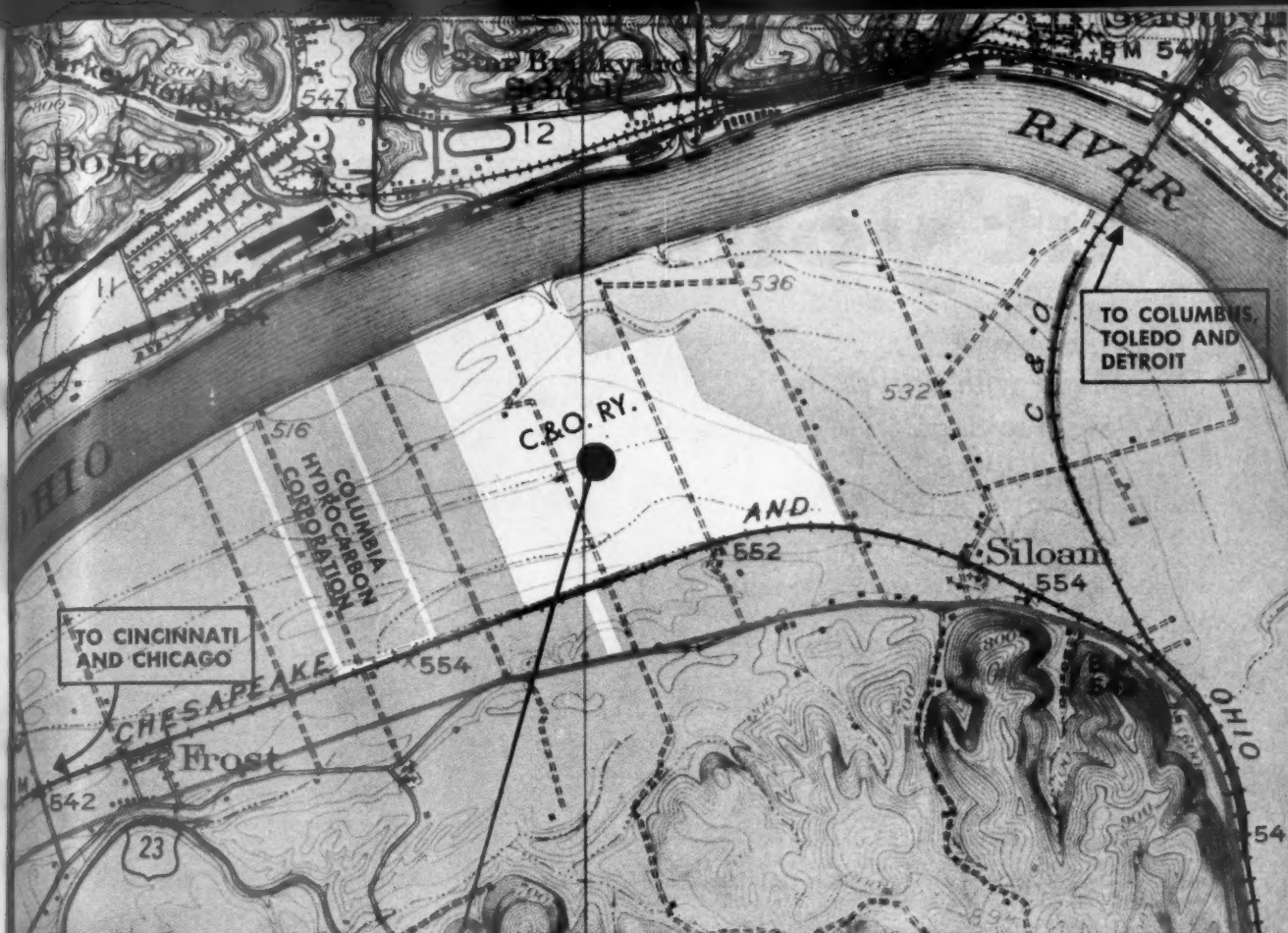
I think this stems partly from more publicity given to the pay of TV and other entertainment personalities. I don't think any unnatural squeeze is obvious at present or in the foreseeable future.

**A most important trend in the executive pay picture seems to be that some of the risk is being taken out of top management compensation?**

That is right. A proportion of total pay—as divided between salary and bonus—is gradually going to go higher on the salary side. The bonus pay, the risk part of it, over the years is becoming less. **END**

**REPRINTS** of "Executive Pay Trends Changing" may be obtained for 15 cents a copy or \$10.15 per 100 postpaid from *Nation's Business*, 1615 H St. N.W., Washington 6, D. C. Please enclose remittance.





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Complete Industrial Surveys of this and other Ohio River sites are available to interested companies. Inquiries are handled in complete confidence and without obligation. Address: Wayne C. Fletcher, Director of Industrial Development, Chesapeake and Ohio Railway, Huntington, W. Va., Tel: Jackson 3-8573



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# NEW WELFARE FUND LAW UNDER ATTACK

Changes urged by critics and backers could have these effects on business and public interests

FEW FEDERAL LAWS start out with a future as dim as that facing the new Welfare and Pension Plan Disclosure Act. Although the law does not take effect until Jan. 1, there seems to be as much talk about how it should be changed as about how it will work.

The law's backers in Congress were actually urging future changes even before the measure was passed.

Employer and public interests will be affected in these ways by whatever changes are made:

► The further Congress goes in regulating welfare and pension programs, the less likely it is to do something to curb the union corruption, abuses and power disclosed by the Senate McClellan Committee, and vice versa.

► Since the untainted employer-run programs account for 92 per cent of employees covered by welfare plans, and 86 per cent of those covered by pension plans, any new congressional regulations and controls would fall more heavily on employers than on unions, whose improper activities in this field caused Congress to act in the first place.

► Further federal intervention would discourage action by the states. The states traditionally have assumed responsibility for controlling insurance activities, which play a large role in welfare and pension programs.

President Eisenhower, even in signing the bill into law last August, condemned it as doing little but establish a precedent for federal responsibility in this field.

Secretary of Labor James P.

Mitchell has called the new law a "legislative monstrosity" and "probably the worst and most useless legislation ever passed by Congress at any time."

A few days after organized labor had helped to elect many more "friends" to Congress, AFL-CIO President George Meany said his organization would seek amendments to toughen the law along the lines of the bill passed by the Senate.

Most employers, on the other hand, feel strongly that the law should be given a trial before it is changed. Many are making difficult and costly adjustments to comply with it.

The law was passed in an effort to "do something" before the fall congressional elections, after it was obvious that the effective legislation the public was demanding to cope with labor corruption and power was not in prospect.

It is the result of two developments: One is the rapid postwar growth of welfare and pension funds and their importance in the economy. The other is the evidence of abuses, mishandling and looting of funds uncovered by congressional investigations as far back as 1954.

The Senate Labor Committee estimated that about 84 million persons are dependent on benefits provided by welfare and pension plans, whose reserves exceed \$34 billion and are increasing at the rate of \$4 billion a year. Annual contributions into the funds exceed \$8 billion.

The Committee's report shows that, between 1945 and 1956, employees covered by group life insurance increased from 11 million to 35 million. Individuals covered under

various group hospital insurance plans increased from 26 million to more than 96 million.

Persons covered by private employee pension plans increased from 5.6 million to 14.3 million.

Several years of investigation by congressional committees revealed numerous cases of embezzlement, exorbitant commissions, kickbacks, improper fees, collusion, mismanagement, other irregular practices.

The Senate acted first last April, passing a bill that would have given the Secretary of Labor broad enforcement powers, and calling for more detailed reporting. It resisted efforts, led by Sen. William F. Knowland of California, to include some labor reform amendments.

Instead of taking up the Senate bill, the House substituted its Teller bill, which the Senate accepted with minor amendments.

President Eisenhower has voiced five criticisms of the new law:

1. It requires only summary statements of many important aspects of a plan's financial operations, making it possible to conceal abuses.

2. No government agency is set up to interpret it.

3. The law relies on individual employees to compel compliance through court proceedings.

4. It fails to give the Secretary of Labor either investigatory or enforcement powers. He is powerless to uncover abuses.

5. No provision is made for dealing directly with the most flagrant abuses, such as embezzlement and kickbacks, once they are uncovered.

The new law is designed to reveal information on welfare and pension



plans, not to correct abuses in their administration.

With few exceptions, it applies to an estimated 900,000 plans that cover more than 25 employees. It requires that:

1. A description of an existing plan must be filed with the U. S. Department of Labor by next April 1. New plans must be filed within 90 days after establishment.

Forms and instructions will be available at the national office of the Department's Bureau of Labor Standards, and the regional offices of the Wage and Hour Division. It is not necessary to use the government form, however. Reports will be kept on file for public inspection in the Bureau of Labor Standards.

2. An annual report of the plan's operations must be filed with the Labor Department 120 days after the end of the calendar, fiscal or policy year.

For plans on a calendar year basis, the first report won't be due until May 1, 1960. There seems to be some question as to when the first report is due for plans on a fiscal or policy year. The Labor Department assumes the report is due 120 days after a fiscal or policy year ends after December 31, 1958.

3. The plan administrator must make a description of the plan, and the latest annual report, available at the plan's principal office for examination by any participant or beneficiary. On written request, he must deliver to a participant or beneficiary a description of the plan and a summary of the latest annual report.

Enforcement of the new law permits both civil and criminal penalties.

**Civil penalties:** A participant or a beneficiary may sue the administrator of a plan who fails to comply with a written request for copies of the plan's description and annual report summary. Courts may award up to \$50 a day from the date of refusal or failure to comply.

Suits for injunctions to restrain violations may be filed in federal district courts.

**Criminal penalties:** Wilful violators may be fined up to \$1,000 or imprisoned up to six months.

Persons giving false information may also be penalized under the federal law applicable to making false statements to the government. They may be fined up to \$10,000, imprisoned up to five years, or both.

The law makes no distinction between company plans and plans

**Many kinds** of welfare and pension plans will have to be reported to the government by next April 1 under the new federal law. Some benefit plans will not have to be reported for one reason or another.

Welfare plans to be reported seem to include:

**Group life insurance**

**Group accidental death and dismemberment**

**Group total and permanent disability**

**Group hospital-medical-surgical**

**Group sickness and accident disability**

**Group major medical expenses**

**Group survivorship benefits**

**Supplemental unemployment benefit programs**

Pension plans to be reported seem to include:

**Trusted and insured retirement plans**

**Some employee savings plans**

**Deferred profit-sharing plans**

These plans seem not to be covered:

**Vacation plans**

**Short-term profit-sharing plans**

**Executive bonus and stock option plans**

**Severance pay plans**

Specifically exempt are:

**Plans administered by governments**

**Plans complying with state compensation laws**

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## WELFARE FUND LAW continued

### Revision may be linked to labor reform legislation

run by unions or by unions and employers jointly.

Welfare plans are defined as formal plans which provide for medical, surgical, or hospital care or benefits, or benefits in the event of sickness, accident, disability, death, or unemployment.

Any changes Congress makes are expected to follow the pattern of the Senate bill, which passed by a sweeping 88-0 vote after attempts to add labor corrective amendments were defeated.

Under this bill, the Secretary of Labor would have had authority to regulate the filing of reports, to make investigations, and to file suits against persons charged with abuse of trust or misconduct in the management of a plan. He would have set up an office of Commissioner of Labor Reports to administer the plan, adding to the growing bureaucracy.

Penalties would be stiffer. The Secretary would be authorized to institute injunction proceedings and criminal prosecutions for wilful violations.

Violators would face a possible maximum fine of \$5,000, five years' imprisonment, or both.

Embezzlers could be punished by a five-year prison sentence, a \$10,000 fine, or both.

Business groups would prefer to have the Securities and Exchange Commission administer welfare fund legislation because of its experience in handling disclosure information. Efforts to include this in the present law failed.

Proposed revision in the new Congress will probably be linked to debate over general labor-reform legislation, which also was promised by both sides after defeat of the Kennedy-Ives bill in the past session of Congress.

This will mean that whatever is done on one issue will likely affect what is done on the other. If Congress passes a far-reaching labor reform measure, it will likely do little, if anything, to further regulate welfare and pension plans. If it acts first on welfare and pension fund control, and enacts a stringent meas-

ure, it will likely do little about over-all reforms.

Extensive regulation of welfare and pension plans may also have a bearing on state legislation in this field, and may lead to federal preemption, or further lessening of state authority.

Most state labor control laws were nullified for all practical purposes when Congress passed the Taft-Hartley Act in 1947. Efforts are being made now to restore some labor-management relations authority to the states.

Six states have passed laws on welfare and pension plans, all since 1955, after public disclosure of union malpractices.

Five of them go beyond the simple disclosure provisions of the federal statute. Other states have waited to see what Congress would do in this field.

If the new act is left as it is, requiring little more than a description of a plan and its operation, it can be a stimulant to further state legislation. As it stands, it does not prevent the states from adopting more stringent legislation. Information disclosed under the federal law might also be useful to the states in planning their own legislation.

Washington passed the first state law on welfare and pension plans in 1955. New York followed in 1956 (with amendments in 1957 and 1958), and California, Connecticut, Massachusetts and Wisconsin in 1957.

The California, Connecticut and New York laws apply only to welfare programs in which unions participate.

A plan is exempt if the trustee is under regulation by federal or state banking laws.

Washington's law comes closest to the new federal statute. Reports are filed with, and examined by, the State Commissioner. There is no regulation.

Laws in the other five states are more comprehensive and much alike. They provide for registration of funds, reports and examination, and also prohibit payment of fees or kickbacks to trustees, employers or union officials who administer funds.

A useful aid in understanding and complying with the new laws is a new book, "Federal-State Regulation of Welfare Funds," recently published by The Bureau of National Affairs, Inc., a private labor relations reporting service in Washington, D. C. It includes the texts of the federal and state laws, as well as analysis, committee findings and other pertinent information. **END**

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Since 1900, nongovernment employment has increased 100 per cent. Government employment—federal, state and local—has risen 660 per cent, and is expected to total 8.3 million as 1959 begins. This is three per cent above the previous high reached in December 1957, and 32 per cent above the World War II peak of 6.3 million.

The figure does not include the 2.6 million members of the armed forces, or the 221,000 foreign nationals working overseas for the United States. Adding these two groups, total government employment reaches 11.1 million—about one of every six employed.

How high government employment is likely to go, or where saturation sets in, are questions only the future can answer. But the federal government's continued assumption of new responsibilities, and the prospects for higher state and local spending, suggest further extension of government employment to new record high levels.

Increases—averaging 25,000 a month—in the past five years have been almost entirely at the state and local levels. Federal employment has remained virtually unchanged. As a result, for every 100 federal employees, 260 people today are working for states, counties, municipalities, townships, school districts and special districts. They include embalmers, chiropractors, cotton classifiers, astronomers, glassblowers, barbers, detectives—almost every occupation found in nongovernment employment.

Principal government activity is education, which occupies 30 per cent of the government employees—mostly in states and special school districts. Civilians employed in national defense comprise 16 per cent; health and hospitals, 10 per cent; the federal postal service, seven per cent. Six per cent of the government employees work at highway construction and maintenance.

The federal government is the nation's largest employer, hiring one out of every 30 employed persons.

Federal employment was under 200,000 in 1900. It reached 450,000 in 1916, and a World War I peak of 918,000. Employment then dropped to about 500,000. The New Deal, and later the defense program, increased it to 1 million in 1940. World War II brought

a 3 million peak. Since then employment has ranged from 1.9 to 2.4 million.

Of the current total of about 2.4 million federal employees, 226,000 are working in the Washington, D. C., area.

This is exceeded by California with 229,000 federal employees. New York has 185,000, Pennsylvania 129,000, Texas 115,000 and Illinois 104,000.

The judiciary is the smallest of the three branches of the federal government, employing only 4,800 persons. The legislative branch employs 22,000 persons. The executive branch has 2,362,049 workers.

The Defense Department, largest in the executive branch, has 1,097,436 employees.

Among the independent agencies, the Veterans Administration is the largest, with 171,692 employees.

The state governments had 1,358,000 employees in 1957, or one fourth of all persons working for state and local governments. Twenty-six per cent of them work in education, 21 per cent in hospitals, and 17 per cent in highway construction and maintenance.

The 3,047 county governments employed 668,000 persons in 1957, or 12 per cent of all state and local government employees. Nineteen per cent of these were engaged in legislation, administration of justice, tax collection and other general control activities; 18 per cent in hospital operation; another 18 per cent in highway construction and maintenance.

The 17,183 municipal governments had 1,539,000 employees in 1957, or 27 per cent of all state and local government employees. Police activities and education each engaged 15 per cent of the municipal employees, while 14 per cent worked for local transit, gas, water and other utilities.

The 17,198 township governments, which include "towns" in New England, had 244,000 employees in 1957, four per cent of all state and local employees. Education was the major activity of these employees, with 38 per cent of all township workers in that field.

The country's 50,446 school districts had 1,649,000 employees. Ninety-nine per cent of these employees were in elementary and secondary education, one per cent in higher education.

The 14,405 special districts, operating local utilities, housing and community redevelopment projects, parks, sanitation, fire protection, and other facilities, employed 150,000 persons in 1957.

END

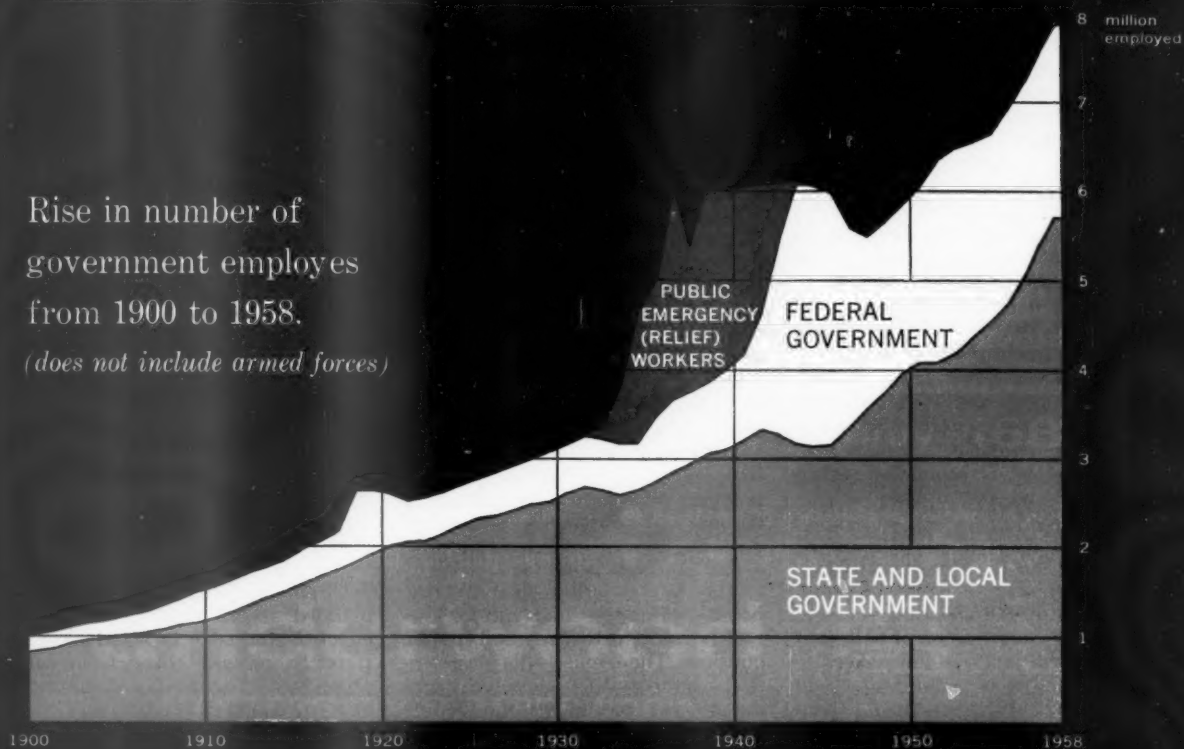




Federal, state and  
local government employees  
as percent of all  
employed persons (civilian)  
(by state)



Rise in number of  
government employees  
from 1900 to 1958.  
(does not include armed forces)



## Reckless spending means higher debts, more interest, and spiraling inflation

say no spending reductions in major national security programs can be looked for while the cold war continues; in fact, the trend is the other way.

As money grows tighter, the cost of interest payments on the public debt goes up. A major airways modernization program now under way will be a substantial expense over the next few years. Expanded highway outlays are outrunning revenues from gasoline and other user taxes. Spending on natural resources projects already under way will increase as work advances—even without any new starts. Various federal grant programs for health, education and other activities will not reach their most expensive levels until fiscal 1960 or 1961.

All those items concern programs already authorized or directed by Congress; there's no turning back.

Fortunately, a few sizable savings are also in sight—if Congress goes along.

► The ending of the acreage reserve section of the soil bank program this year will save some \$600 million in the new budget.

► The current budget has to bear the extra burden of some \$300 million of retroactive pay increases; the coming budget will be spared the retroactive payments, although it must provide money to maintain the salaries at the increased levels.

► The special antirecession program of supplemental unemployment compensation payments will end shortly, ending a project that will have cost some \$400 million.

► A government program for buying low-cost housing mortgages is scheduled to die, saving \$300 to \$400 million over a two-year period.

► Parcel post and other small mail rate increases are scheduled, which will reduce the postal deficit.

All these projected economies would just about offset the spending increases. But the President in January will leave out of his proposed budget many pet spending schemes pushed by congressmen of both parties. He will ask the lawmakers to take a number of actions that will prove distasteful to many—to trim back spending on veterans, housing and other programs and to boost user

charges on highways, airways and other services.

The fate of the budget will depend largely on whether Congress accepts these recommendations.

The President seems ready to fight for his budget this year. Some of his remarks at post-election press conferences indicate that he feels strongly enough on the subject to do just that. The day after election he pledged a war on the spenders.

Not long ago he told a news conference that "we are spending too much money and contemplate spending too much money." In a campaign speech in Pittsburgh he pledged a strong fight against "wasteful government spending."

"All of us know the results of reckless federal spending," the President said. "It saddles the future with greater debts, heavier interest payments, higher prices and spiraling inflation."

One has only to look back again on the past session of Congress to recognize what a tough job the President may have.

That point is made even more sharply when it is remembered that the Democratic majority then was considerably smaller than it is going to be in the new Congress and that conservative Democrats carried more weight then than they will when the new session begins.

Just what can be expected from the new Congress? For one thing, because the strength of the liberals was increased, pressures for increased spending can be expected to grow.

The first line of congressional attack will almost certainly be on behalf of some of the measures the President vetoed this past year or managed to block before passage.

For example, Democrats undoubtedly will try to push through a new program of federal aid to areas of chronic unemployment. The President last summer vetoed one with a \$280 million price tag.

They'll certainly push a new, big housing program—more aid for low-cost housing, urban renewal, public housing. The House this past session narrowly defeated a bill—similar to one passed by the Senate—that would have cost more than \$2 billion.

The President vetoed legislation for \$437 million in grants for airport construction. This bill will return, possibly in expanded form.

Half a dozen other spending proposals that were close to enactment when Congress quit will certainly be revived. They include efforts to spend hundreds of millions for community facilities, metal subsidies, educational television stations, atomic icebreakers, and other projects. Then there will be a new drive for many proposals that didn't get far in the last Congress—a food stamp plan, new farm subsidies, more public works, federal outlays for scholarships and schools.

Finally, all through the session a continuous push for big new defense spending is inevitable.

In its counterattack, the White House pledges that this year it will send to Capitol Hill the long-promised presidential recommendations for cutting down on the cost of veterans' benefits—an area of steadily increasing outlays.

The Administration also can be expected to renew its recommendations for gradual reduction of the federal share of the costs of urban renewal projects. Higher gasoline taxes and other increased user charges will be sought to lessen the burden of the stepped-up highway construction program.

It will again seek higher interest rates on college housing and rural electrification loans, as a means of attracting more private capital into these areas. It will propose making the airlines and other aviation interests pay more of the cost of new airways. It will probably again seek to boost the first class mail rate to five cents, trimming the postal deficit. It will ask Congress to cut back on federal grants to states for public assistance, water pollution control, and other spending programs.

These goals, if won, can help hold the budget line but, as a budget official puts it, "The only way to hold down spending is to cut out whole programs; to cut down the scope of programs or never to let them get started. Fewer employees, better management and the like bring relatively small savings in a \$79 or \$80 billion budget."

Finally, says Mr. Stans: "Reductions in government programs cannot come suddenly. They must be planned ahead and in some cases effected gradually to avoid dislocations to present beneficiaries and objectives." That is why, if the budget is to be held at \$80 billion, citizen interest in government spending must be continuous. **END**

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# GET FULL VALUE FROM EXECUTIVE TRAINING

Study of these five pitfalls can add to success of management development

AS RISING BUSINESS promises to increase the future need for trained executives, business managers are taking a new sharp look at development programs.

The recession provided a breathing space in which results of courses previously taken could be assessed. The assessment reveals some spectacular successes and some disillusioning disappointments.

Analysis shows that most of the latter can be traced to five common mistakes:

- ▶ Failure to relate executive development to job performance and company need.
- ▶ Pushing managers too far too fast.
- ▶ Using development programs as a substitute for analytical thinking.
- ▶ Expecting too much from the program.
- ▶ Tying development too close to promotion.

In addition to identifying these pitfalls, recent studies have made plain the ways to avoid them.

## **Failure to relate development to the job**

The thesis that management training is so good that it pays big dividends regardless of what it costs is dangerous and now solidly repudiated by every responsible authority in the field.



*Coaching by seniors best*

A carefully planned, conscientiously operated program does pay off. There is little doubt that management development has added an entirely new dimension to industrial efficiency. Achieving the most effective use of this new tool, however, requires a continuing and close relationship between the training investment and production requirements. Programs enshrined as objectives—as ends in themselves—have proven to be expensive show pieces for organizations trying to keep up with the corporate Joneses.

The way to insure getting a decent return on your investment is to become cost-conscious and result-conscious. Does the program help to get on with the job at hand or doesn't it? Training is hastened experience. In management development, it is a distillate of the wisdom and experience of the present generation of executives who had to do things the hard way. They learned by stubbing their toes on management problems and became developed by a succession of painful experiences. Training attempts to communicate this knowledge to the rising executive in a manner somewhat more efficient than the toe-stubbing method. This is the only reason for its existence.

Be careful, therefore, in selecting a training program, to be sure that it does communicate knowledge vital to the organization or to the growth of the individual. Before you start shipping all hands off to management courses, decide what you hope to accomplish in terms of improved job performance and a larger reservoir of promotables. Choose, fairly and objectively, the managers who seem to be most in need of, or most likely to profit from a company assist in their development. Then figure out the best way to give them the experience or the training that is indicated.

Bear in mind that best is not synonymous with costliest. One of the least expensive techniques of development is coaching by senior executives in any everyday job situation. Experience demonstrates that this is also one of the most effective techniques. One authority puts it this way:

"The best form of executive development is a senior executive on one end of a log and a trainee on the other."

In this context, even job rotation becomes of doubtful value unless you determine carefully in advance what benefits may be derived from exposing the potential manager to a succession of heterogeneous assignments. Experience has demonstrated that it may



be fearfully expensive in lost executive man hours and often contributes little—sometimes does positive harm—to a young manager's growth.

Some comptrollers have been sobered by the simple device of calculating the amount of expensive wheel-spinning that accompanies a change in assignments. Assume that it takes two to three months for a high-salaried man to make a complete adjustment in his new position and that it requires about as much time for his replacement to get really on the ball. Add to this the cost of moving the executive's family, including possible subsidies for the purchase of a new home, and the cost becomes sufficiently high to make second thoughts pay dividends. Timing the rotation of key executives requires a careful analysis of growth patterns and organization needs to avoid costly training for training's sake.

One of the most expensive, least understood, and yet potentially most valuable devices today is company-financed attendance at management courses offered by universities and other institutions. Too often, however, neither the university, the company, nor the executive in training have any real grasp of the objectives to be served by such activity. For the right man at the right time, these courses are extremely useful. But it costs, on the average, some \$3,000 to \$4,000 a month in salary, tuition and living expenses to send an executive through a good school.

Careful inquiry is necessary to avoid fuzziness in objectives to make results equal to investment.

The training cycle may be looked at as proceeding from the specific to the general: At low levels, teach your potential executives the right answers; next, teach them the art of asking the right questions; and at the highest levels, educate them to know which questions are worth asking.

This can be done and still keep training activities within hailing distance of the organization's production requirements. Even the University of Pennsylvania program in liberal arts for Bell system executives is based on the practical requirement that Bell needs ex-



*Managers grow in four stages*

ecutives with wide-ranging intellectual backgrounds to meet the day-by-day operating responsibilities of a modern giant utility. Furthermore, attendance in this program has been preceded by some pretty intense on-the-job training in the Bell companies to prepare the executive trainee to profit to the maximum extent from the Pennsylvania program.

#### **Pushing managers too far too fast**

It may be true that "every corporal carries a marshal's baton in his knapsack" and every junior manager must be regarded as a potential president. But you would not have much of an army if corporals were trained in grand strategy rather than squad leadership.

One of the most serious mistakes in executive development is to push a growing manager prematurely into a type of training that he does not find relevant to his present job problems. Such training not only is likely to be wasted; it may also have unfortunate psychological results.

"People have a tremendous fear of the irrelevant," says an official of American Telephone and Telegraph Company. "We have learned that a primary requirement of a successful executive development program is that it must make good sense in the minds of the prospective participants."

Unless a person is secure in his mind with reference to his position in the company, he is likely to spend all of his time in executive training classes worrying if somebody dreamed up this training for him as a convenient way of easing him out of the organization. Enough cases are on record where executives graduating from management training programs away from the company have been greeted on their return with pink slips to add fuel to the fire of such suspicions.

Many firms have made the same discovery. A recent survey of executive development practices in a dozen of the nation's best-managed corporations showed that every one of them is now emphasizing job-orientation as a basic principle. It may help to



*Is this trip necessary?*



*Some don't care to go higher*

keep your own program job-related if you think of a manager's development as a four-stage process.

The first stage is mastering his present job. Through coaching, judicious use of in-plant training courses, and above all through day-to-day experience on the job, he must learn the specific skills required to perform efficiently right where he is now. Some authorities estimate that 80 per cent of an organization's total effort in executive development should be expended on this first stage.

When a manager demonstrates a thorough command of his current responsibilities, it is time to begin enlarging his duties and confronting him with new challenges. This is the second stage. He is still getting on-the-job training, but his job has now become a developmental tool, a secure base from which he can reach upward and outward. Timing here is critical.

It is possible to emphasize on-the-job training so much that one pushes the executive from a learning situation in which he continues to grow over into provincialism and complacency. One authority estimates that "even the most complicated jobs in our organization may be learned by reasonably competent people within two years. After this we've got to be careful that people don't become too satisfied and too closely identified with the specific processes of that job. This would make it impossible for us to get them to do anything else. Therefore, we concentrate on using the job as a developmental tool rather than an end in itself after the two-year period."

In the third stage, you expose him to formal training of a highly pragmatic type in such managerial skills as rapid reading, report writing, quality control, human relations and supervision. Most of this training may be given in the plant by line executives with an incidental boost from outside facilities. It should make full use of case studies or incident process techniques which relate to his job experiences.

Many managers will not go beyond the third stage. As a matter of fact, one of the ruder shocks of the past decade is the discovery that a large number of people

in middle management levels simply don't care to go on to higher executive responsibility.

A good executive development program then must leave an escape hatch, without prejudice, for those who couldn't care less about moving into the executive suite. For the relative few who do exhibit the proper attitudes and aptitudes for higher assignment, you need a fourth stage of development. About five per cent of the total training effort lies in this area.

It is here that you send a man off to take a company-financed course or to a university to broaden his perspectives through exposure to great books and great thoughts.

There is little doubt that the key officers of America's great corporations need insight that is as broad and comprehensive as the problems of society itself. The emphasis here ceases to be training.

It is now education for civic leadership—for industrial statesmanship.

#### **Using programs as substitutes for thinking**

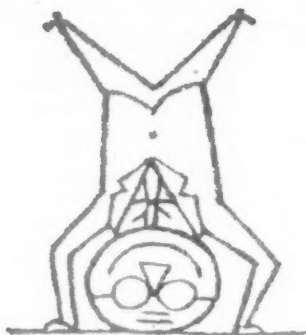
In spite of all that has been said about the need for tailoring executive development to individual needs, there is still a strong tendency throughout industry to rely on set courses and standardized procedures. This tendency is probably inevitable: American industry is built on mass production and its concepts subtly and naturally pervade management thinking. Many stereotypes are necessary just to handle the large volume of decisions.

One may think of such outside programs as peripheral to the main stream of executive training or as the capstone of a full and productive career. The important thing is to analyze carefully their place in the scheme of the individual executive's growth pattern. Constant vigilance is necessary to be sure that they do not become the tail that wags the dog.

Even when a company puts primary emphasis on coaching and guided experience, overstandardization is still a danger. Trying to create a new executive generation in the image of the old can be fatal. By



*Don't expect too much*



### *Old dogs can learn new tricks*

DRAWINGS BY CHARLES DUNN

the time the new generation takes over, the company may be operating in a markedly different environment or even turning out a different product. The solution is to throw away molds of all kinds and concentrate on developing individuals who are flexible enough to cope with an ever changing situation.

One authority estimates that the executive of the future will have to change his mind-set completely six or seven times in the course of his career. Given the natural instincts of people to resist anything that is new and unfamiliar, this prediction poses some real challenges for executive development.

This means that an appraisal system cannot be regarded as an optional feature of your executive development program. It is the indispensable starting point, the very heart of the whole effort.

There are many good systems for insuring periodic, objective review of each manager's progress, potential and needs. Pick any one you like, but once you have set up appraisal procedures, use them conscientiously. Busy managers are always tempted to take short cuts. They don't have time to diagnose young Smith's strengths and weaknesses and make an intelligent estimate as to how best to utilize his strong points and correct his liabilities. As a substitute for analytical thinking, they are likely to plunge Smith into the nearest executive training program. This is not development. It is sabotage—of Smith, the company, and the whole idea of executive training.

#### **Expecting too much**

Part of the genius of American business is its relentless insistence on getting results in a hurry. But this characteristic impatience, like the mass production philosophy, can have disastrous results when applied to executive development.

The extreme form of this mistake is to expect a single management course to turn a bright young man into a seasoned executive. The more common error is to mark off a certain period of a manager's career as the time when he is to undergo development.

One of the lessons that stands out clearest from the experience of the past 10 years is that executive development cannot be handled successfully on a shot-in-the-arm basis. It must be geared to the long, steady pull—what one management consultant calls "development of the whole man in his total career situation."

Closely allied with this is another assumption that one can take executive development or leave it alone. Doing nothing in itself is a form of development. We all grow and develop every minute of our lives. Every interview, every telephone call, every slap on the wrist, develops us for better or for worse.

Management's choice then must be made between whether or not it wants people to develop in the direction of provincialism and routineness or whether it wants its executives to be free-wheeling, risk-taking entrepreneurs supporting whole-heartedly the objectives of the organization.

Among other things, this means that a wise company will not fix arbitrary age limits on its development program. Old dogs do learn new tricks and an executive who has passed his fortieth birthday does not automatically become incapable of absorbing useful knowledge. In most instances he is likely to profit more than a younger man from attendance at an advanced management course.

#### **Tying development to promotion**

In keeping with the philosophy of executive development which prevailed 10 years ago, many programs still are designed primarily to produce a reservoir of future managers. This is a legitimate goal but the mistake is committing specific future positions to specific managers in training. The results are unfortunate in two respects. A man who feels that he is being groomed for promotion tends to lose interest in his present job. If something happens—such as a company reorganization—to deprive him of the promotion he has been counting on, he is likely to become bitter and ineffective.

This pitfall is by-passed if an organization takes the modern view, which holds that the primary purpose of executive development is improving job performance here and now. The company which concentrates on training men to handle their present responsibilities better will usually get a bumper crop of promotables as a by-product. But it will not be in the awkward position of having given them an implied promise that they will be promoted if they make good grades in the management courses.

Drawing a clear, sharp line between training aimed at developing an executive's potential and the requirements for promotion in the organization makes it clear that payoff comes with performance. Or, as one senior executive put it, "In this company, a manager has to *earn*—not *learn*—his way up the executive ladder."

—LOUIS CASSELS &

RAYMOND L. RANDALL

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## The failure to collect pertinent data could scuttle a potentially good idea

and of an executive to help calculate costs and work out production schedules. An executive might need help in making models or drawings and in establishing materials and labor specifications.

The company's president believes the employees' privilege of taking time off from regular work to develop their own ideas in their own ways goes far to explain the program's success. Dr. Helfgott agrees.

"Such a system," he says, "has two advantages. First, it eliminates the inhibiting threat that brash, new ideas will be subjected immediately to judgment.

"Second, it provides a good excuse for shifting from routine work and thinking to the nonroutine. The opportunity to make such a shift more or less at will has great appeal for the kind of men who produce new ideas."

### **Assembling facts**

If "take it easy" is the prescription for encouraging new ideas, "take it hard, harder and hardest" fits the other three items in Dr. Helfgott's four-point program.

The first step in determining the potential of a new product is assembling the facts. This should mean collecting the pertinent data, not an immovable mountain of information. But all the pertinent data are needed. The way to determine the pertinency of facts is to analyze the problem to find what you must know in order to make your decision on a proper solution.

As an example of failure at this stage, Dr. Helfgott cites the case of a new mucilage intended for home and office use. Although the product offered certain improvements over standard glues, these were recognized as insufficient to attract many buyers. To make it more attractive, the company's president hit on the idea of dispensing it in a new and different kind of container.

He called in designers and described in detail what he wanted. The designers produced what he asked but submitted several alternatives at the same time, suggesting that he test his requested design in the market before going into production. Fortunately, he agreed to this. It proved to have poor appeal.

At this point the firm finally got around to analyzing this problem and determining the information needed. Two questions soon became obvious: Who were the potential buyers? What sort of container would appeal most to them?

The answer to the first was readily available. Most users of this type of mucilage in either home or office were women. The answer to the second was provided by a sample survey testing different types of containers. The one originally chosen by the company president appealed strongly to male executives, not at all to women. When a design that appealed to women was found, the product quickly became profitable.

One of the most difficult problems in handling new ideas is in making the decision to abandon them. We tend to associate with new ideas the feeling of progress. And who wants to stand in the way of progress? Often the evidence against the validity of a new idea must mount prodigiously before we can be persuaded to consider giving it up.

A case reported from the West Coast clarifies this point. A few years ago the management of a venerable and profitable department store began to feel dissatisfied with its old-fashioned interiors and atmosphere. The head of the women's wear department sought and received approval of a plan to modernize it throughout—new fixtures, new lighting, new emphasis on high fashion and more aggressive promotion. For a few weeks after the remodeling this department's sales increased. Then they began a sharp and continuing decline. Sales of other departments dropped, too.

An outside consultant found the facts that the management had overlooked:

Large numbers of the customers were women who had long bought nearly all their clothes in the women's apparel department and who shopped in the other departments in the course of trips intended primarily for clothes buying.

What these women had liked most about the store was its old-fashioned atmosphere.

When the former decor was restored, the firm's business gradually picked up. In the meantime sizable

sums had been lost in sales and wasted in decoration costs. Had the facts, which were available from the beginning, been assembled, these losses would have been avoided.

Dr. Helfgott cites as an example of better procedure the case of a large food processing firm which was planning to redesign the package of one of its products. Before seeking a new design the firm established three requirements. The package must: 1, compete effectively for consumer attention at the point of sale; 2, communicate favorable qualities and encourage purchase; 3, gain widespread recognition as standing for its brand.

With these requirements set, the next step was to determine how well the package already in use fulfilled them. Three separate studies were undertaken, one on each point. The old package scored high in each.

Result: Instead of a complete new design, the firm undertook only small changes which, the studies had shown, would make the score even higher in each category. Most rational redesigning of products and packages amounts to such small, balanced changes in established designs.

### **Applying logic**

Contrary to the old saying, facts never speak for themselves. They must be analyzed logically in relation to the problem at hand. Often what they seem to say, the conclusion they indicate at first glance, is a costly deception.

To demonstrate how this can happen, Dr. Helfgott outlines the experience of a firm making cleaning products.

When sales of one of the company's leading items, a liquid disinfectant, went into a decline, the management summoned executives to a spark session.

This session produced an apparently valuable idea: Market the disinfectant in powdered form.

In support of this suggestion the management reasoned that, since the product was caustic, the liquid, bottled form might seem dangerous to consumers. A bottle can break and spill its contents. Powder packaged in cans would eliminate this hazard.

So far, so good. When it next developed that the company had on hand equipment for producing and packaging the powdered form, a new product group was set up to develop the idea further. Its first undertaking was to try to find out whether consumers wanted the powder. Using standard sample survey techniques



the group assembled the following facts:

1. Asked what they thought of the powdered product as compared to the liquid, nearly all housewives said it would be better.

2. Asked whether they would buy the powder, a sizable percentage said they would.

3. As a dividend, the survey revealed that most of the market for the liquid was made up of older housewives, that they objected to the caustic quality of the liquid, that they were concerned about the danger of the bottle's breaking and that they indicated a strong preference for the powder.

The seemingly obvious conclusion was that there was a good market for the powder. Accordingly, the company put the powder into production. It was an almost total failure.

The fault was in the logic applied to the facts. Logical analysis might run like this:

Question: Will consumers buy the powder? Answer: They say they will. Conclusion (as drawn by the new product group): They will.

Put this way the flaw in the conclusion becomes obvious. Everyone knows that humans often fail to do what they say they will do. The logical conclusion is a new question: Will they do what they say they will do?

This, of course, is a much more difficult question than any of the others, but Dr. Helfgott points out that social scientists have developed means of answering it. When the cleaning products firm later sought an explanation for the failure of the powder, a new survey produced an answer. It ignored direct questions about the powder and, instead, ascertained how the chief purchasers of the liquid disinfectant, the older housewives, actually felt about the product.

This feeling, like many feelings, was outside rationality. The women admitted that the liquid was dangerous and said they would prefer the powder. But they said this merely to emphasize their heroic devotion to duty, their willingness to use the dangerous liquid in order to do thorough cleaning jobs.

"What wonderful housewives we are," they said to themselves in effect. "We are willing to take great risks to make sure our homes are spotless."

Younger housewives, on the other hand, could say quite truthfully that they would prefer the powder over the liquid. But they used little if

any disinfectant, preferring detergents. To them a woman who used much disinfectant was "crazy clean."

Another case of lagging sales led to happier results through more careful use of logic. The product was a mouth wash. It was doing well in pharmacies where clerks served the customers but sold far under the expected rate in self-service supermarkets. A wide variety of explanations was logically possible. Perhaps supermarket shoppers preferred a mouth wash with a stronger—or weaker—taste. Perhaps competitors had found an advertising theme that had great appeal for supermarket customers. Perhaps supermarket managers were giving competitors' products better display.

One of the first principles of logic, however, is to prefer a simpler explanation over a more complicated

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See page 34

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one. In search of a simple solution this mouth wash maker concentrated on the observed fact that his product sold badly only when the customer had to find it for himself. This suggested that it might be difficult to distinguish on a shelf laden with similar products. This in turn suggested that what he needed was not a new product or a new promotion approach but simply a more easily distinguished package.

He obtained and tested such a package. With no changes in advertising, promotion or anything else, his supermarket sales increased 17 per cent.

## Assuring communication

Much new product development work, Dr. Helfgott points out, involves three levels of personnel. Top management makes the final decisions on the basis of research supervised by middle-level executives and performed by lower level men. Obviously, it is essential that all pertinent facts and interpretations of facts assembled at the lower level be transmitted to the top intact. That transmission often bogs down in the middle level.

In the case of the powdered disinfectant some members of the research group were dubious about the validity of the facts collected. Those doubts were not passed along by the supervising executives because they were considered mere opinions. The top management was notorious for its insistence on "facts, hard facts." Also, the bearer of good news is always more welcome than he who reports the bad. Accordingly, the fact that housewives had said they would prefer the powder was reported as if it were the fact they would prefer the powder.

It is important to note here, Dr. Helfgott emphasizes, that the middle level men were not being unrealistic about the probable reaction of their superiors to their reporting the doubts. By leaving out the doubts they could report success. By including them they would, in effect, cast a shadow on that success.

"One of the biggest challenges in new product planning," he goes on, "is in structuring the organization of it to promote the free flow of all pertinent information—opinion as well as fact, bad news as well as good."

Dr. Bush makes a similar point about the organization of industrial research in physics, chemistry and engineering. He describes industrial laboratories where staff members spend most of their time trying to find out what they are supposed to be doing, others where different cliques refuse to communicate with each other except in formal memoranda. Under such conditions, he concludes, research is merely another drain on the firm's capital.

Illustrating the value of the free flow of uninhibited opinion, Dr. Helfgott cites an experience of a firm making toys and novelties. By its nature such a concern is entirely dependent on the continuous development of salable new products. This one seeks new ideas everywhere and has succeeded in enlisting its whole working force from office boys to board chairman in the search. But through long and some-



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continued

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times costly experience the management has learned that criticism can prove valuable.

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Shortly before the launching of the first Sputnik the company had the luck to begin making model rockets. One of the production workers took a sample home to his nine-year-old son. The boy was unimpressed.

"You've got it all wrong," he said. "It shouldn't be solid like that. Rockets are made in stages. It ought to come apart in three or four pieces."

The workman passed this comment along without hesitation. The head of the firm saw the point and had the model redesigned. When this segmented rocket outsold competitors' one-piece models, the workman received a bonus and his son a complete spaceman's outfit.

Success in new product development, Dr. Helfgott concludes, goes with most regularity to those firms which best understand the importance of the motivations of the members of their research teams. The theory of business organization which treats the members as parts of a machine, each with definite, rigidly defined functions, has helped enormously to solve the problems of mass production. But its effect is stifling when it is applied to problems requiring creative solutions.

The creativity of a research group is in direct proportion to the degree of its freedom from inhibitions and restrictions. No matter how much a member of the group has to contribute he will be unable to make that contribution freely and fully if he has any doubt, conscious or unconscious, about the welcome it will receive.

The elimination of such doubts is the secret of successful management of new product development.

—ROBERT FROMAN

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## Executive Trends

### Put focus on accomplishment

A new theory of management organization—called the results approach—offers some fresh thinking on the classic problem of getting people to work productively and effectively together.

The concept's author, management consultant Edward C. Schleh, explains the theory in a report prepared for the Society for the Advancement of Management, Inc.

Stated simply, the theory is that jobs should not be defined in terms of responsibility or activity, but should be considered only in terms of the results they are intended to produce. It attempts, says Mr. Schleh, to "reverse the insidious trend that has developed in the past several years, that of assuming that working at something is getting something done."

► In setting up results on a job, Mr. Schleh advises, management should put them in terms of specific objectives for a definite period. Latitude in the how of achieving the desired results should be granted. "And especially important," Mr. Schleh asserts, "the person should be told, well in advance, explicitly what the objectives are."

### Results approach challenges committee action

One of Mr. Schleh's convictions is that there is a lack of accountability for results in the operations of many companies today.

Emphasis in recent years on group dynamics, action by committee, and "an inordinate stress on group action," has produced this state of affairs, he says.

Too frequently, he says, committees or groups tend to relieve men of accountability for the results assigned to them. Group arrangements often permit an individual to bring his personal problems to one or more other people for review or consideration. Memos to explain why something didn't work go out in a flood.

► Under the results approach to organization, a rather dim view is taken of management by groups. Individuals, says Mr. Schleh, must be made to understand clearly that they will receive equitable credit or blame, depending on whether or not they individually accomplish the results expected of them.

### Why there is no longer a Santa Claus

Many an executive will cast a wistful eye at the postman this month of Christmas, remembering a day when the yule mails brought all manner of good things from suppliers and other business acquaintances.

There will be few gifts in this year's stocking, for the practice



of business giving is fast becoming as passé as the nickel jitney and free lunch.

The trend away from gift giving has been spurred by a stinging awareness among businessmen of what such practices have done to the reputations of political figures. In addition, the practice is being viewed in a more realistic perspective—as one which has, at most, a dubious utility and only a faint ring of sincerity.

► *One company—Western Electric—has dispatched letters to its 33,000 suppliers and subcontractors explaining why the company believes business gifts are a bad policy, and why it prohibits its employees from accepting presents from business associates, regardless of their value. The key reason: The practice is "wasteful and improper . . . in that it raises altogether unnecessary questions with respect to the integrity of both donor and recipient."*

### **Demand for managers at peak**

There has been a sharp pickup in nationwide demand for executives.

A monthly barometer of management openings—*Executrend*—shows that the demand index, at its most recent reading, has risen to 56, the highest level since July 1957 and 19 per cent above the recession low of 47 last January.

The heaviest current demand is for engineering and technical executives. However, all fields—including personnel, finance, marketing, manufacturing and general administration—have registered an advance since early last summer.

► *The pickup in demand for executives coincides with a new growth period in business generally. Confirmation of this comes in results of a new NATION'S BUSINESS survey of the business outlook (see page 72). Respondents to the survey predicted steady improvement in business through 1959 and stressed their eagerness at the present time to find new executive recruits. With the economy regaining strength, organizations are seeking new men or replacing those whose jobs were discontinued during the downturn. While there were few, if any, wholesale reductions during the recession, there were curtailments in certain staff jobs, such as advisers and "assistants to."*

### **Research highlights employe attitudes**

Supervisors hold the key to an employee's attitude toward the company he works for and its policies.

This is shown in a recent, hitherto unreported study of employee attitudes toward management and company policies in a large electronics manufacturing concern. The study was conducted by researchers at the University of Michigan's Institute for Social Research.

Here are key findings:

1. Employees with favorable attitudes toward their supervisors tend to have favorable attitudes toward the company and its policies.
2. Employees at higher levels aren't necessarily more satisfied in their jobs or more favorable to company policies than lower-ranking employees.

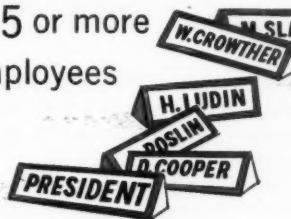
► *Other findings: The more influence an employee feels he has in the decisions involving his job, the more favorable are his attitudes toward his superior and the company; the more influence he believes his superior has in making company decisions, the more favorable are his attitudes toward his boss and his company; the higher a supervisor is in an organization, the more he tends to understand the people who work under him.*

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# WHAT TOP EXECUTIVES SEE FOR '59

Here—to help you plan—are the results of a new Nation's Business survey of the business outlook

CONTINUED vigorous improvement in business conditions through 1959 is expected by a majority of top-echelon executives participating in a new NATION'S BUSINESS survey.

These executives represent a cross section of the largest industrial and business concerns throughout the nation.

The dominant mood of optimism reflected in the survey contrasts markedly with caution and uncertainty expressed by executives in a similar survey conducted a year ago, when the 1957-58 recession was taking shape.

Last year's pessimism has faded. Confidence now is high. Most companies, in fact, seem to be in a restless, expansive, let's-get-going frame of mind.

Two highlights from the new survey illustrate this shift in attitude:

► Ninety-three per cent of the survey participants expect their companies' sales to increase in 1959. A year ago, 69 per cent foresaw an increase.

► Fifty per cent anticipate a rise in their employment. A year ago only 26 per cent predicted an increase.

The bullishness of the survey participants closely parallels and in some ways exceeds the optimism voiced in recent weeks by business economists.

In a meeting of almost 100 economists at the University of Michigan last month, the prevailing view was that the present recovery is soundly based and will continue at a good pace at least through 1959. This judgment arises in no small degree from the improving alignment of important business indicators at present.

The business leaders polled by NATION'S BUSINESS are not without some misgivings, however, over certain features of the short-term outlook.

Labor pressure on wages, with subsequent pressure on prices, worries many business planners.

Control of costs bothers many executives.

The general inflationary trend, and pinched profit margins, are still other significant obstacles listed.

Many of the problems cited, however, are difficulties characteristic of a period when business is picking up momentum.

"We need to strengthen our sales organization to get a larger share of the market," was a typical comment.

The problems of financing expansion also drew frequent, scattered mention.

The charts on the opposite and following pages, summarize replies to the individual survey questions. It should be noted that percentage totals in several instances exceed 100 because of multiple answering.

In the two charts listing biggest problems to companies and to managers, emphasis has been placed on those problems which have a broad, pervasive application. Specialized problems are not listed.

Analysis of the specialized complaints makes plain that one industry's headaches are not necessarily those of another. Nor is there any hard pattern to the problems of individual managers.

In the transportation field, for example, "excessive government regulation" was frequently mentioned. The adjustments necessitated by the transition to jet aircraft were mentioned by two airline officials.

In the merchandising field, overexpansion and overcapacity were cited as key problems by two chain store executives, although control of costs and expenses of doing business emerged as the biggest universal worries in this field.

In industrials, or manufacturing—the field from which response was heaviest—domestic and foreign price competition stood out as an important, but secondary, problem. The president of a cast iron pipe manufacturing concern described his biggest problem as: "Labor's incessant, exorbitant demands."

The returns indicate that businessmen used the recession as a time for cutting costs and trimming inventories, on the one hand, and improving sales efforts, products, quality and research, on the other. Some companies, notably in the insurance field, said the recession did not affect them to any appreciable degree.

The management of personnel—identification, training, motivation—appears to be a chronic problem of wide incidence. This is pointed up by the high frequency of its mention by individual managers as their biggest personal concern.

The coordinator of long-range planning for a paper and forest products company made a comment which was representative of answers to the question about biggest personal problems.

His answer: "Selection and placement of men adequate for the responsibilities ahead of them."

More than 175 executives took part in the outlook survey. The findings are intended as a planning aid to NATION'S BUSINESS subscribers.

**1** Will sales in your industry in '59 be better, about the same as in 1958, or not as good?

	↑	NO CHANGE	↓
Industrials	92%	8%	
Commercial Banks	67	33	
Merchandising	100		
Transportation	92	8	
Life Insurance	92	8	
Utilities	100		
Other Lines	70	20	10
TOTAL	91	8	1

**2** Will sales of your company increase, remain about the same, or decrease?

	↑	NO CHANGE	↓
Industrials	92%	8%	
Commercial Banks	75	25	
Merchandising	100		
Transportation	92	8	
Life Insurance	100		
Utilities	100		
Other Lines	80	20	
TOTAL	93	7	

Average estimated increase was 10 per cent.  
No decreases were foreseen.

**3** Have you reached about minimum inventory for your expected sales rate?

	YES	NO CHANGE	NO
Industrials	84%		16%
Commercial Banks			
Merchandising	100		
Transportation	80		20
Life Insurance			
Utilities	100		
Other Lines	75		25
TOTAL	85		15

No answer given in industries where question was not applicable.

**4** Will employment in your company increase, remain about the same, or decline?

	↑	NO CHANGE	↓
Industrials	52%	47%	1%
Commercial Banks		80	20
Merchandising	55	45	
Transportation	77	23	
Life Insurance	58	42	
Utilities		89	11
Other Lines	50	50	
TOTAL	50	48	2

Average estimated increase was two per cent.

**5** Will your company spend more in '59 than this year for

	Improved products	New products	Expanded facilities	Other
Industrials	77%	46%	51%	3%
Commercial Banks	25	25	50	
Merchandising	17	50	67	
Transportation	67	33	33	11
Life Insurance	56	22	56	22
Utilities	25		100	
Other Lines	86	57	57	
TOTAL	75	42	52	5

Percentage totals across may exceed 100 because of possible multiple answers.

**6** What effect will the money and credit market have on your plans for 1959?

	No effect	Force cutbacks	Increase outlays
Industrials	95%	2%	3%
Commercial Banks	100		
Merchandising	82	9	9
Transportation	85	15	
Life Insurance	100		
Utilities	100		
Other Lines	89	11	
TOTAL	93	4	3

**7** Would your spending for capital improvements increase with favorable revision of

	Corporate tax rates		Depreciation allowances		Excise levies	
	Yes	No	Yes	No	Yes	No
<b>Industrials</b>	39%	52%	50%	45%	8%	60%
<b>Commercial Banks</b>	20	80	20	80		100
<b>Merchandising</b>	64	36	45	45	9	82
<b>Transportation</b>	67	8	83		25	33
<b>Life Insurance</b>	25	75	25	75		75
<b>Utilities</b>		89		78		78
<b>Other Lines</b>	50	25	50	25		
<b>TOTAL</b>						

**8** Will the price of your products or services rise, stay about the same, or decline?

	↑	NO CHANGE	↓
<b>Industrials</b>	47%	50%	4%
<b>Commercial Banks</b>	100		
<b>Merchandising</b>	9	91	
<b>Transportation</b>	10	90	
<b>Life Insurance</b>	9	82	9
<b>Utilities</b>	33	67	
<b>Other Lines</b>	22	78	
<b>TOTAL</b>	38	59	3

Average estimated increase was four per cent.

**9** Do you expect your profit per dollar of sales to rise, stay about the same, or decline?

	↑	NO CHANGE	↓
<b>Industrials</b>	62%	30%	8%
<b>Commercial Banks</b>	33	67	
<b>Merchandising</b>	6	56	38
<b>Transportation</b>	23	54	23
<b>Life Insurance</b>	9	67	27
<b>Utilities</b>	33	67	
<b>Other Lines</b>	56	33	11
<b>TOTAL</b>	48	39	13

**10** Will your total production labor costs rise, stay about the same, or decline?

	↑	NO CHANGE	↓
<b>Industrials</b>	69%	28%	3%
<b>Commercial Banks</b>	80	20	
<b>Merchandising</b>	44	56	
<b>Transportation</b>	85	15	
<b>Life Insurance</b>	73	27	
<b>Utilities</b>	88	12	
<b>Other Lines</b>	75	25	
<b>TOTAL</b>	71	27	2

Average estimated increase was four per cent.

**11** What did your company do during the recession to prepare for favorable conditions?

	Improved facilities	Improved training	Cut costs
<b>Industrials</b>	49%	48%	89%
<b>Commercial Banks</b>	20	20	80
<b>Merchandising</b>	55	27	73
<b>Transportation</b>	36	36	100
<b>Life Insurance</b>	33	75	50
<b>Utilities</b>	40	20	50
<b>Other Lines</b>	67	67	78
<b>TOTAL</b>	47	47	83

**12** What will be the biggest problem facing your company in 1959?\*

Controlling costs  
Stimulating sales  
Improving profits  
Withstanding inflation  
Meeting competition  
Dealing with labor pressure  
Coping with pricing trends  
Handling personnel

Percentage totals across may exceed 100 because of multiple answering.

\*Problems are listed in the order of their importance to all categories.



## 13 What will be your biggest personal problem as a manager in 1959?\*

Finding, training, handling people  
Combating costs  
Improving profits  
Building sales, developing salesmen  
Strengthening organization  
Resisting wage pressures  
Managing diversification  
Meeting competition

## 14 Will your company spend more, the same, or less than this year for R & D?

	↑	NO CHANGE	↓	Not affected
Industrials	65%	28%	2%	5%
Commercial Banks		40		60
Merchandising	9	64		27
Transportation	8	69		23
Life Insurance	14	36	43	7
Utilities	10	90		
Other Lines	56	33		11
TOTAL	48	38	4	10

\*Problems listed in order of importance to managers in all categories.

## 15 By how much do you expect your industry to increase its volume five years hence?

	1-5%	6-10%	11-15%	16-20%	21-30%	31% or more
Industrials	2%	13%	25%	21%	17%	21%
Commercial Banks		25	50	25		
Merchandising		50	10		30	10
Transportation	21	21	7	21	7	21
Life Insurance	8	8	8	8	17	50
Utilities						100
Other Lines			25	25	38	12
TOTAL	4	15	21	18	17	27

Over-all five year average growth was estimated at 20 per cent.

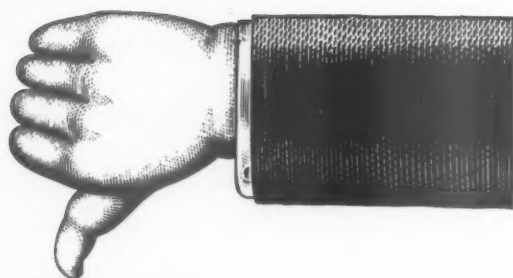
### Who's who in the survey

EXECUTIVES taking part in the Nation's Business survey of the business outlook for 1959 include high-level decision-makers in pace-setting companies across America.

By far the largest single number—40.7 per cent—of the participants are presidents of their companies. All of those taking part are Nation's Business subscribers.

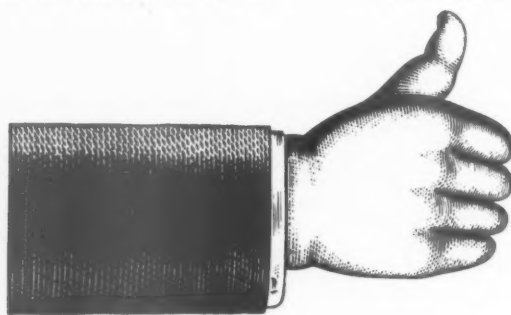
Here's a breakdown by position classification:

Board chairmen	7.3%	General managers	2.3
Presidents	40.7	Department managers	4.5
Vice Presidents	29.4	Economists	0.6
Treasurers, secretaries	9.0	No position given	6.2
			100.0%



is'sue (ĩsh'ū;-ōō), *n.*

A point in debate or controversy on which the parties take affirmative and negative positions; a presentation of alternatives between which to choose or decide. —WEBSTER'S DICTIONARY



When the 86th Congress convenes in Washington on January 7, 1959, it will be faced with a heavy workload. It will be called upon to make decisions on 30 or more major legislative issues.

The issues have to do with such things as labor power, inflation, spending, tax reform, intervention in state and local affairs, governmental controls, to mention some of the main topics.

The decisions which Congress makes on these issues will affect you and your business. The decisions will affect the atmosphere in which you operate, and the future of the country.

Therefore, you as a businessman, have certain responsibilities, so far as today's important national issues are concerned.

Your first responsibility, of course, is to know what the issues are all about, so that you can speak with authority and conviction on present-day problems, developments and legislative proposals.

Your second responsibility is to have an influential part in the decision-making—by building public sentiment in favor of the business viewpoint—and by sharing your wisdom and your views with your elected representatives in Washington.

The Chamber of Commerce of the United States is the organization through which businessmen work together to gain a better understanding of important national issues and problems—and to make the recommendations of business heard and heeded in Congress.

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## STRENGTH

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- More than 3,400 Organization Members—local, state and regional chambers of commerce, and trade and professional associations; and,
- More than 22,000 Business Members—corporations and individual businessmen.

1. RESEARCH—The National Chamber studies and analyzes trends and developments affecting business and the economy.
2. POLICY—The National Chamber determines the views of all business on national issues, and sets up a program of action.
3. OPINION DEVELOPMENT—The National Chamber builds a better public understanding of national issues and problems affecting business, and builds public support for the business viewpoint.
4. LEGISLATIVE ACTION—The National Chamber presents to Congress and the Administration the recommendations of business on legislative proposals and economic problems.
5. SOLID FRONT—The National Chamber works to keep America's business organizations increasingly strong, unified and moving ahead in the same direction to achieve their common goals—for the good of all.

## Consumers complain that business does not understand them and their wants

of products rather than with their core meanings. He is not equipped to make expert judgments about the fine points of performance. He allocates that responsibility to the manufacturer and the retailer. But he is eager to make distinction from the peripheral and intangible meanings, and the brand image becomes the reality for the consumer.

Economists and rationally minded groups have generally decried these special small features, mostly for upsetting the buyer's judgment by factors other than price and quality. Actually there is no adequate terminology to describe this area of merchandising. These features are referred to as "gimmicks," as "marginal meanings," as "glamorous extras," and "merchandising frills."

But in the eyes of the new consumer, these are not offhand factors which business can treat as an afterthought. Quite the contrary, they seem to the consumer to be the main points of interest. From styling, from the excitement of newness, from the mental values that constitute the brand image, from the purely sensate aspects contributed by color and packaging, products derive their greatest buying strength.

In a recent study of room air-conditioners, consumers confessed they knew nothing about motors and other functional qualities. Decision to buy was based on styling and matching colors. The value of anything is not an exact factor like weight. To a large extent it exists in the consumer's mind.

Research has indicated that a large part of the demand for new housing stems from dissatisfaction with present housing styles. Families are spurred to action by desire to change the styling of their homes. The new home is viewed as thoroughly different and a more desirable dwelling. It is much more than just a new version of the family's present home. The new home has become a symbol and a goal as well as a place to live.

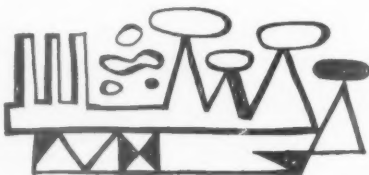
The things one buys are building blocks to a higher standard of living. Technological development has brought more time for other things than homemaking. If objects go out of style and are obsolete while they still have utility, the consumer is

not angry. He is anchored to the philosophy of change and immediate sensation.

The pleasure of the momentary impulse justifies the purchase because, in the new consumer's eyes, a trip to the store becomes a pleasurable adventure. It means seeing beautiful ultramodern plazas and stores which offer infinitely greater varieties of goods. It means keeping in touch with exciting new developments pouring from the laboratories and testing kitchens. It means acquiring countless items for the home and the family which once were undreamed of luxuries but which are now considered necessities.

The shopping trip is a concrete reminder that the family has moved into a new world, that family earnings and purchasing ability have climbed enormously, and that this movement promises to continue.

Along with eagerness to buy has come willingness to buy on installments. Credit buying not only



affords more and better goods, but it means having them sooner. Being in debt is not a bad thing but rather a way of providing access to the fruits of our production system for virtually any income level. The revolving credit plan which provides a steady amount of credit at comparatively high interest is extremely popular. The interest cost is entirely subordinated to the fact that one can acquire many desirable objects now instead of deferring possession until some remote future period.

This permissive attitude toward credit makes for the greater purchase of luxury and impulse items. If payment for a rotisserie or a home movie outfit comes from the same revolving credit plan as necessities, there is little feeling of self-indulgence or overspending.

Because of these inclinations to more self-indulgent spending,

greater use of credit, and the pleasures of the shopping trip, our historical reverence for liquid capital in case of possible future emergencies has virtually disappeared. Although savings today are at an all-time high, the proportion of family income devoted to them has declined. If one saves, it is for some specific spending purpose.

A broad-scale research project included the question: "If your family income were doubled in the next five years, what would you do with the additional income?"

More people at all income levels mentioned spending than saving, and generally the saving was allocated for some future spending, rather than for investment. In one research study after another, we encounter families who state without apology that they have no liquid capital whatever, and who may even live beyond their incomes.

In one typical case a young wife successfully moving up the social and income scale described how she handled the family finances. She deposited her husband's salary in the bank then immediately wrote checks for the full amount of the deposit. In her mind the act of depositing his checks was a sufficient gesture toward saving.

Even if the new consumer feels much less anxiety and guilt about shopping, even if she does more self-indulgent and impulsive spending, she is by no means a careless shopper. From one end of the country to the other, retailers complain about the sharp buying of today's shopper.

Again and again consumer research turns up situations wherein consumers complain that business does not understand the way they live and how they want to shop. For instance, the young family today feels uncomfortable and not accepted in the atmosphere of traditional conservatism and austere dignity offered by most banks. Fur coats have become symbols of expensive self-indulgence.

The new shopper feels that she doesn't want to say these things about herself. She is looking for versatility, moderation, and casual styling in her clothes. She says she prefers shopping in the new suburban plazas because "they understand me," which implies she feels that many stores are not sensitive to her changing way of life.

Now from coast to coast the largest retailers are giving more thought to the intangibles about their stores and their locales which contribute to the store personality. This does not detract from their



abilities as good merchandisers. But they also have to think of store atmosphere, decor, windows, displays, color schemes, status of the store's customer body, as well as all the policies about service, credit, personnel. The consumer does not shop haphazardly in just any store. Mentally she screens out the stores whose personalities do not seem fitting and appropriate to her, regardless of their price offerings. In the growing impersonality of shopping in supermarkets and big stores, the consumer tends to personalize the stores themselves.

There are some other large scale trends which are steering the activities of the new consumer. One of these could be called coddling, or self-enjoyment. Whereas the culture-hero was once the self-made man, the contemporary man to model after is just the Good Joe. Products meeting the need for self-indulgence and self-enjoyment will be good bets for marketing at the levels of informality and relaxation rather than high status symbolism.

Another important trend is toward self-actualization. Every year more people take up hunting or skiing, or buy a boat or enroll in an extension course at a university. They are finding a dynamic solution to the problem of leisure. As leisure increases, and it will, along with the growth of population and automation, consumer needs in the leisure area must be met. Manufactured goods play a large part in helping people to realize their inner potentialities.

Both of these trends are characterized by the notion of pleasing yourself with a secondary gain to others. They have a double-barreled appeal. You make yourself happier and at the same time you are more congenial and interesting to others. This is not vanity at all. Self-enhancement has become a social obligation. Even the skillful use of leisure is today a social obligation.

There is tremendous buying for children among the new consumers. They are really youth-centered, in the sense that a new philosophy of how the family should behave toward children has also developed. Parents are far more indulgent in a wide range of ways, allowing young people to date earlier, giving more freedom and less stiff-necked discipline, larger allowances and access to the family charge plates; granting them more freedom of choice in their activities and what is purchased for them. In almost every interview among new community families, the parents state they are determined to

give their children things that they themselves were denied.

Most families view these activities as educating the child. Education embraces not only formal schooling, but includes educational toys, private lessons of all kinds, children's telephones, motor scooters, hobbies. The children's world is more and more determined by sources outside the home such as friends, the school, and the mass media. The considerable buying for the child is determined less by what the parents deem fitting than by what his chums are wearing and doing.

It seems evident that children who grow up in this atmosphere will perpetuate this buying behavior and general philosophy of living into new generations for some time to come.

The unionized craftsman and the semiskilled worker have quickly become the largest consumers of many items formerly considered as belonging almost solely to upper income groups. Research shows that today the largest buyers in Chicago of automobiles, motor boats, household appliances and fur coats are this factory and service worker group. They are the largest holders of savings accounts in both banks and savings and loan associations.

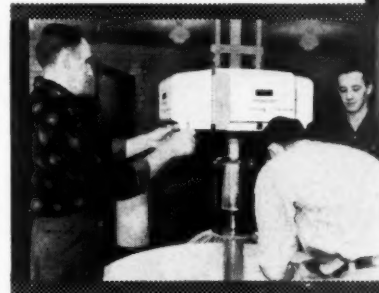
Like the new consumers in other groups, they want the goods they buy and the stores they patronize to reflect their changing tastes and their rising standards.

In today's competitive market, the new consumer is in an enviable position. She is socially, financially, and geographically mobile, and new horizons are constantly opening for her. Buying things is of great importance and interest to her. The shopping trip is an acting out of much of the new community philosophy which is so appealing. She votes weekly on a host of products for herself, her family and her home. And she votes on a highly personal basis. She buys gasoline at the station with friendly, helpful attendants and she shops at the stores she feels are for her.

In a very real sense, what is being reflected is a switch from the utilitarian criteria for purchase decisions to a personalistic, inexpert judgment of what to buy. If the imagery derived from color, styling, or packaging is pleasing; if the psychological, felt dimensions of the product image appeal to her personally; if the notion of purchasing the article affords even momentary satisfaction—then she has sufficient confidence in her judgment and her circumstances to go ahead and buy. **END**

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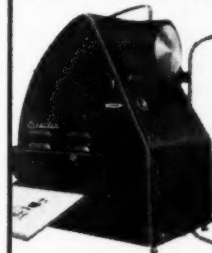
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# POLICY REVIEW BRINGS 3-WAY GAIN

These guides will help you decide  
when procedure change is needed

THE RAPIDLY CHANGING business situation forecast for the next few months increases the need for review of company procedures.

Policies are not necessarily wise ones merely because they have been around a long time.

Policies adopted in the past few months also need review, either because the new economic situation requires revision, or to assure that the gains they brought are continued.

A careful review will help your company save time, cut costs, increase efficiency, and use executive talents more effectively.

Here are 10 practical guides for taking a second look:

1. Study the history of the policy or procedure.
2. Describe it in words.
3. Ask key people to explain it.
4. Review the experiences of the men who have lived with it.
5. Invite constructive suggestions.
6. Compare it with similar practices in other companies.
7. Choose a timely occasion.
8. Examine the organization chart.
9. Check to see that good policies and procedures are being followed.
10. Look at yourself.

## Study the history

A good starting point in reviewing a policy or procedure is to find the answers to such questions as: Who started it? When? Why?

Often a policy can be attributed to the personal desire of some particular individual.

For example, the owner of a newly established chemical plant insisted upon personally checking every order which involved a request for credit. Over the years, as the business grew, this task began to consume more and more hours.

When the founder's son took over the business after his father retired, he took a second look at this policy. He realized that he could save himself considerable time by assigning to a subordinate the responsibility for review of credit applications up to a certain amount. As a result, he was able to devote more time to planning the future development of the company.

The old policy had survived sole-

ly because it fitted the work habits of a particular individual.

Who started a policy or practice is just as important in big as well as in small companies. A second look at several of the internal administrative policies of a large factoring company yielded this unusual answer: The policies had been instituted by the assistant to the president who had neither the authority nor the ability to make such decisions.

When a policy was started may prove to be another worth-while review question. A given set of circumstances at some past time may have been the reason for starting a policy or procedure. Take the case of the corporate buying office for a large retail chain. Twenty years ago, when the corporation's buying practices were still being formulated, the office began the practice of seeing salesmen four mornings a week.

Recently, on the basis of a second look, it was decided that two mornings a week would be sufficient. The old procedure was not necessarily wrong in the light of the problems of 20 years ago, but circumstances were no longer the same.

Finally, in studying the history of a policy or procedure, we should ask:

Why was it begun? Policies and

Words don't make effective policies. But a good clear policy lends itself rather readily to words



procedures are instituted for reasons. Unfortunately, in many instances the policy outlives the reasons.

A case in point involves an automobile dealer. During the years in which buyers were abundant, he instructed his sales representatives to stop making outside calls and to cut down on demonstrations. Reason? Customers in the showroom did not like to be kept waiting, and the dealer wanted his salesmen on the show floor as much as possible.

A hard second look at the change in the market readily revealed that the policy was being allowed to live beyond its time. In short, the reason for keeping salesmen close to the home base was no longer valid.

These examples all just happen to show the need for a change. But just as frequently the second look justifies continuation of a policy or procedure.

#### **Describe it in words**

Unwritten policies and procedures are sometimes so nebulous that even the supervisor who administers them is hard-pressed to describe them. Consequently there is considerable value in reducing a policy to words.

This word test sometimes reveals that in truth there is not a clear policy or perhaps no policy at all. When we try to describe it in words, we try in vain. In the end, it must be conceded that we only thought there was a policy.

Putting procedures into writing is an increasingly accepted practice in business today. An administrative routine that is constantly rusting and breaking down can often be straightened out by reducing the operation to outlined steps. As a matter of fact, a second look that is concluded with a written procedure characteristically makes it possible to do in 10 easy steps what formerly took 20 uneasy steps.

Many of the personnel, marketing, sales and operations manuals used in business today are the result of intensive reviews of procedures. In this connection, the president of a highly successful electronics company said, "I am delighted when we can get day-to-day procedures into writing. Then I can devote more time to tackling the rough, unexpected problems."

Words don't make effective policies. But a good clear policy lends itself rather readily to words. The hard second look should demand the words.

#### **Ask people to explain it**

Every company policy or procedure touches a few key people. Their



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## What a firm learned as reviewers talked to the men who had to live with the policy

interpretations are, therefore, likely to throw some additional light on the matter.

In a commercial bank in a mid-western city, the vice president in charge of branch operations uses this method to take a second look. He makes it a practice to call in several branch managers periodically to review policies and procedures. When the explanations of these key executives coincide, he is satisfied that the matter under discussion is clear. In some cases, slight and relatively unimportant differences arise; these are quickly ironed out.

Major inconsistencies may be symptoms of misinterpretation, lack of clarity in the policy itself, or of a procedure that simply won't work in practice. As a result of these periodic conferences, operations in the various branches are carried out with model consistency.

### **Ask the men who live with it**

The re-examination of a policy involves more than just stating it, listening to an explanation of it, or even understanding it. Day-to-day application is a crucial factor. One of the fairly certain ways of finding out how smoothly it is being applied is to go over it with the men who work with it.

In an effort to cut down on paper work, a freight forwarding company instructed its top supervisory employees to stop submitting monthly written reports to their administrative superior. Instead they were requested to make oral reports via in-person meetings.

In principle, the idea was sound, and the objective noble. However, a careful check with the supervisors indicated that they were finding it impossible to report at all because of the difficulty of scheduling conferences. Even though the written report required time, they preferred it over the worry of not keeping their boss fully informed.

In such a situation, the company has two choices: to return to the original procedure or to take further steps to make the new one workable.

### **Invite constructive suggestions**

The full potential of a second look is realized when it is used to spur suggestions. For no matter how

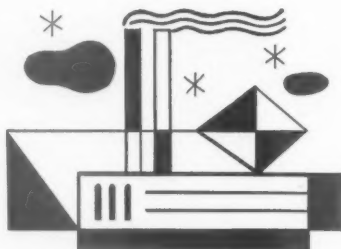
well a thing is done, there is always the possibility that it can be done even better.

So at the same time a procedure is being re-examined, it is advantageous to ask the persons concerned, "Can this procedure be improved? If so, how?"

During a review of the forms being used in his division, an insurance company executive was invited to outline his views. He recommended placing a copy of every form in his department on several tables. From such a vantage point, he suggested it would be more possible to spot duplication, overlapping, etc.

This second look resulted in the elimination of seven out of 24 forms. Moreover, it was agreed that the need for five other forms was questionable and that they should be reviewed again in six months.

Suggestion boxes produce some profitable ideas. But the ideal time



for garnering valuable suggestions is right in the midst of a second look at a specific policy or procedure.

### **Compare it with practices of others**

No single company has a monopoly on sound policies. Therefore, it pays to look in more than one direction when you take a second look.

Comparisons with similar practices in other companies are beneficial. At the least they may provide reassurance that your own practices in a certain area are the best. On the other hand, such comparisons may indicate ways in which a particular policy or procedure can be improved.

Take the case of the plastics company that was second-looked its price policy. On large orders, its prices were in line with its hardest competitor. On small orders, how-

ever, its prices were lower. As a result, it was doing a sizable business in small orders. But was the small-order business profitable? On closer scrutiny, it became apparent that the meager profits on the small orders were being consumed by the time that had to be spent in preparing them.

The competitor, through a different price policy, was discouraging smaller orders and concentrating on the more profitable large ones. By virtue of the comparison, a major change was made in the pricing of small orders, and the change was followed by a more handsome profit picture.

### **Choose a timely occasion**

While it is possible to review policy or procedure at almost any time, it is especially advantageous to do so on some special occasion. The right occasion provides a worthwhile stimulus.

A dairy products company chose its twenty-fifth anniversary year as a timely base for an over-all policy review. A large food processing corporation instituted a full year of re-examination of procedures when it transferred its headquarters from a large city to a suburban site.

One of the most natural times to take a comprehensive second look is when there is a major change in the top management team. A new president obviously is in a highly strategic position to hold old policies and procedures up to the light. His second look is likely to be quite productive because he is in a position to do something about those things that require change.

### **Examine the organization chart**

A second look is not complete without some study of the organization chart. The relationship of one department to another and one executive to another frequently makes or breaks policy.

The history of any company will very quickly prove that organization charts are not sacred. They are altered by new ideas, new products, new circumstances, new men. As a matter of fact, in a given company, the odds are that the existing organization chart is somewhat out of date. Sometimes the second look serves to prod the chartmakers into bringing the chart in line with the organization.

As a general principle, it is better to modify organization charts to fit people than to bend people to fit the chart. As one successful corporate president put it, "I'll be able to tell you better whether that's a good



organization chart when you tell me which name goes in which block."

Only the rare organization doesn't have some problems in internal human relations. If a second look helps a little in uncovering and resolving the more serious ones, it is a dollars-and-cents contribution.

#### **Check follow-through**

This story is not unusual. A company spent a considerable sum for the services of a management consultant firm. The firm made a number of recommendations which the company's top management considered sound and acceptable. The recommendations were implemented by written directives and procedures in an official company manual.

Several months later, a vice president of the company took a second look to see how these new directives were being followed. With just a few exceptions, they were not being followed at all—not because of wilful violations but because the old procedures were like old and familiar habits, hard to break.

When a new policy or procedure is put into effect, a wise precaution is to note some date in the future as a reminder to check the state of its health.

#### **Look at yourself**

A potent factor in any second look is the man who is making it. Yet a re-examination of policy and procedure is colored by the prejudices, attitudes, experiences, and opinions of the looker.

In this area it is good to lean over backward to be objective. A basic caution is to avoid recommending changes for the sake of making them. The executive who urges changes in policy or procedure will obviously be asked to justify those suggestions. If the reasons you have in mind seem weak or shaky, it is best to leave well enough alone.

Self-criticism is the rarest kind. But a second look that includes it is highly beneficial to the company and to the man.

It is not hard to see the dust on a desk or the rust on a piece of metal. But it takes a well planned second look to spot dust or rust on a company policy.

—HOWARD R. DRESSNER  
New York University

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# YOU CAN TELL WHO WANTS SUCCESS



Attention to these guidelines will aid  
in picking the really ambitious person

TRYING TO DETERMINE accurately which of your men really wants to get ahead can be made easier by following some basic guidelines laid down by top personnel consultants.

Seemingly, it should be easy to pick for promotion those men who are truly eager for success.

The truth is that all men are not eager to advance. In this case, getting ahead means the driving ambition to assume more leadership and more authority, not the wishful desire for more prestige and more money.

With rare exceptions, all men pay lip-service to wanting advancement in their jobs. This is part of the ethic of the business situation, psychologists point out. People are expected to want to move on to higher and higher positions of management. Down deep, though, often lurks the feeling that, "I don't want any more headaches. I don't want any more responsibility. I'm comfortable where I am."

This doesn't mean that the man who pays lip-service to the idea of promotion is lying—not knowingly,

anyway. Dr. Saul W. Gellerman of The Personnel Laboratory, Inc., of New York, points out: "The ability of people to hoodwink themselves and the boss into thinking they want advancement is amazing."

For this reason, he says, the professional psychological evaluation is desirable in determining whether motivation for promotion is actually present.

According to Dr. J. P. Foley, head of J. P. Foley and Company, Inc., New York consultants to management, more and more companies are using professional appraisers in making selections for promotions.

The executive's immediate concern, however, is to be able to look around him and do at least some preliminary screening for himself.

To continue promoting a man who isn't eagerly seeking success—always pushing him higher up the management ladder—is unwise for the company and for the man. He may be doing well where he is.

Interestingly, the man who is content to stay where he is often frets the executive, for the hard-driving



leader finds it hard to understand why others don't seem to want the same things he does.

Rather than spend energy contemplating the strangeness of some individual who doesn't want any more success, the executive should look around him for the man who shows definite signs of an itch to move upward.

In deciding who really wants to get ahead, you won't be right every time, of course. But careful attention to these guidelines will help:

- ▶ Records.
- ▶ Conversations.
- ▶ Observations.
- ▶ Opinions.

## Records

Study of a man's records, such as college, employment, military service, and the like, can reveal a great deal about him, says Edwin T. Ashman of Hoff, Canny, Bowen & Associates, Inc., New York. On this point Dr. Foley emphasizes that whether an initial hiring or a promotion within the company is involved, the study should be made with the definite thought to the type of position being filled. Mr. Ashman says the fact that a man entered into no extracurricular activities in college, has belonged to no social or professional organizations since leaving school, and, by his records shows that he generally is not a mixer, should definitely enter into the decision if the new position calls for a man to move to the civic-minded small-town plant site. On the other hand, if you are looking for a good controller, the extracurricular activities would probably play a much smaller part.

Such a record as a nonjoiner should not by itself block the man's path, says Mr. Ashman. But it should be kept in mind when talking with the person. Maybe he worked his way through college and never had a chance for extracurricular activities.

Mr. Ashman places great stress on the grades a man has earned in college. Grades tend to show what intelligence a man possesses and the use he can make of it. Good

scholastic grades also indicate a degree of perseverance, he says.

Dr. James N. Farr of Farr & Glasscock Associates, psychological consultants, New York, stresses intelligence as a very great factor in executive selection. He says he doesn't necessarily mean formal education, but native good sense.

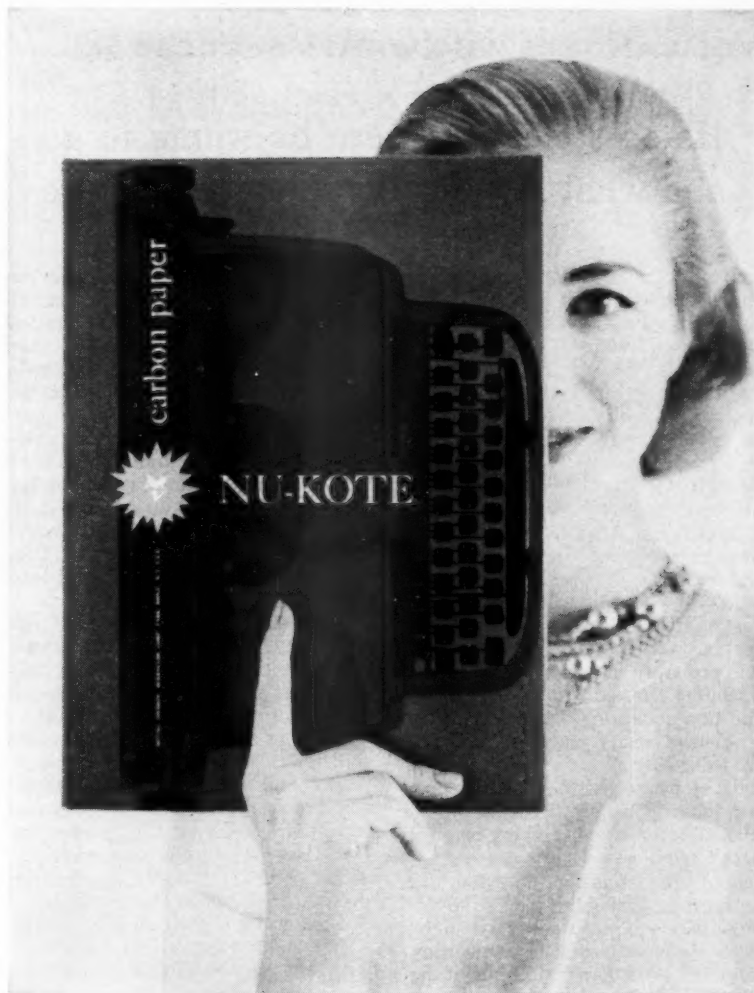
Dr. Foley says that ability or intelligence tests are very beneficial and can be used as good guidelines because most people want to excel in them.

But, although good grades would be extremely important in selection of an accountant, for instance, they might figure much less dominantly in the selection of a sales manager. Here, you would look again at recorded indications of how he got along with people and was accepted by them.

Mr. Ashman tells of interviewing a young man in his late thirties who graduated *summa cum laude* from a large eastern college. Mr. Ashman says his eyes lighted up when he saw the man's scholastic record. Then they dimmed. The highest position this man had held in almost 15 working years was manager of a small lunch room.

Too much reliance on records, however, warns Dr. Gellerman, can be misleading. He says that over the years a man's outward manifestations of his personality change, although a hard core remains relatively constant. The man who did poorly in college or shows up poorly through some other records may have had a change of heart. Conversely, the man who showed up well in college may also have changed his ways.

In looking at past records, Dr. Gellerman says, be aware of the fact that, unless the job conditions, particularly the amount of stress and emotional support, of the most recent job are greatly similar to the immediate future one, the past performance is almost meaningless. You don't know, he says, what went on in the last one. Maybe the man was leaning on a much stronger superior or co-worker. Maybe the man can make \$20 decisions but goes to pieces with \$100 decisions. Also, you



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## He sees clearly where he wants to go and what it will take to get him there

may not know what subtle psychological factors were involved in the authority placed over the man in the first job and which will be over him in the new job.

"The world is full of successful morons and unsuccessful geniuses," he notes.

Changing jobs a number of times doesn't necessarily reflect unfavorably on a man.

From past studies and from his own experience, Mr. Ashman says the executive in his forties who has held three to five jobs, each one higher than the preceding, shows real growth potential. Such a man has probably moved because he saw a chance for continued growth in the new location.

Always verify the facts listed in records, Mr. Ashman cautions. He tells of a successful executive who was looking for another position and turned in a résumé showing he graduated from a well known business school. Investigation revealed that he hadn't. Since the executive was obviously successful anyway, such a false statement appeared meaningless, Mr. Ashman said, but it destroyed his chance to obtain the new position.

The study of records is not infallible in judging a man for a new job. But neither is any other method. Records, used wisely, and with the particular requirements of the new job clearly in mind, can be a step toward picking the right man.

### Conversation

Question judiciously and listen closely, says Mr. Ashman. In talking with a person in your organization listen closely for keys to his personality. When looking for the man who wants to get ahead, try to ask questions that will bring out his feelings about the qualities a man should have to fit properly into the job.

Take your time in evaluating and keep an open mind, Dr. Gellerman says, so that you are not hoodwinked by the most artful dodger of them all: the sincere applicant who has hoodwinked himself.

Sometimes the man's qualities and aims in life come out clearly, without probing on your part.

A young man trained to be an actuary in an insurance agency called on an executive placement agency for a position. The personnel man was much impressed with the applicant's résumé, and explained the tremendous advantages of a particular job with an insurance company, and how the man could work himself right up to the top of the outfit.

"That'll take a lot of work, won't it?" the man asked.

"Yes, but it's a job that will lead to the top."

"I'm sure it is a wonderful opportunity," the man replied, "but I have decided I want to work only 37 hours a week. I want to spend the rest of my time with my family."

At least the applicant was honest with himself and the interviewer. Most people will not be so straightforward, even though they may feel exactly the same way. They may not knowingly be concealing something, either. They may not have admitted even to themselves that they really do not crave to get ahead.

Mr. Ashman says that, in talking with the men you are considering

tain amount of anxiety, a certain amount of self-doubt. This is the man who feels that he must prove himself. He is not necessarily neurotic, Dr. Farr says.

Also, he says he looks for a man who is aware of the opinions of others—but not guided by them unduly.

In talking with a person about his future with your organization, look for the man who has a plan to get ahead, Mr. Ashman says.

When an individual says bravely, "I want to move ahead in the organization," ask him how he plans to do it. If he flounders and says, "Well, ah, by hard work," be a little careful.

Look instead for the man who says, "I think if we do such and such and I take over doing this and that. . . ."

Listen to what he says he would like to do in the future. It comes out often in just casual conversation. Skillful questioning can bring it out more fully.

Mr. Ashman emphasizes that it is impossible to decide on a man's desire to get ahead in one short interview. He also cautions that most of us have a tendency to seek an alter ego when looking for some one for promotion.

Dr. Farr says the man who wants to get ahead sees his immediate task as important, but only a subgoal of his real ambition.

### Observation

One of the strongest characteristics of a man who wants to get ahead, says Mr. Ashman, is what he calls "utter realism." This, he says is the ability to take a cold, detached look at the road ahead. Such a person strips his mind of any sentimentality, false notions about himself, or others. He sees clearly where he wants to go and what it will take to get there.

"I wouldn't want to be in the way of a person with this quality," Mr. Ashman says.

"I've seen some men who were charming persons, but they could turn the charm on and off like a switch. Underneath the charm was a brutally realistic view of their careers. You could see that in their eyes. These are the men who will get ahead," he says.

This realism should not be confused with cockiness, since the latter often indicates basic insecurity.

The man seeking success will be as cold and calculating in setting up short and long-range objectives for himself as the corporation is in set-



for promotion, it is well to listen for signs of overemphasis on security, signs that they do not want to throw themselves into the job. Little indications may appear to show that the man actually doesn't want to drive hard and gamble a bit on the chances of getting a higher and higher position.

That is not criticism of these individuals. It is simply observation of a fact: Some people want much higher positions—feel driven by something inside them for higher spots in management—and some don't.

One thing Dr. Farr says he looks for in trying to determine the man who wants success, is one with a cer-



ting up objectives for the company.

"After all," says Mr. Ashman, "the qualities that men used to get ahead in the Dark Ages are the same qualities used today. Sometimes they are a little more subtle, more civilized, but basically they are the same. Under a thin veneer, we're still savages."

Many minor observations will also help determine who wants to get ahead. These include such things as watching to see how the man in mind keeps the work on his desk flowing. Is it a steady, smooth process, or is he continually fussing with first one thing and then another? Mr. Ashman says that, as an industrial engineer, he could spot a shop with poor production usually by noticing how neat the men kept the plant.

Grooming can give a clue to the ambitious man. Usually we don't like to think we put too much emphasis on clothes. That seems to be simply an artifice that doesn't belong in the hard-driving business world. Nevertheless, emphasis is placed on grooming. Since we are all self-promoters, Mr. Ashman says, the man who wants to be successful will try consciously or subconsciously to fit into the picture of success. Another, perhaps unconsciously, will do just the opposite.

Without putting undue stress on a man's appearance and manners, it is still possible to learn a great deal about a man through them.

## Opinions

A final guideline is the opinion of others who have known the man being considered. There are dangers to this, just as in every other method of trying to judge a man. Keep in mind the personality of the man who is giving the information.

By talking with others about the man or men being considered, you get a hint as to his drive; by examining his records you get another hint; by talking with the man you get still more of an idea; and finally, by careful observation of the man in action, you get further clues.

Adding all these clues together will give you a pretty good picture of the man. It won't be infallible. But it will be a help in picking men who really want to get ahead. **END**

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## Budget deficit is the most important single factor behind fear of inflation

programs will be to permit somewhat lower prices for farm products.

### Wage inflation

The most important pressure on costs and prices during the 1955-57 period was the increase in labor costs at a more rapid rate than national productivity. Thus in the manufacturing industries, output per man-hour rose by only four tenths of one per cent in 1956 and eight tenths in 1957—substantially below the long-term rate of gain. For the nonagricultural economy, the average rise for those two years also averaged less than one per cent per year.

In contrast, average hourly earnings in manufacturing industries rose 5.3 per cent in 1956 and 4.5 per cent in 1957. Inclusive of various nonwage benefits, the percentage increases were even larger. Substantial pressure on prices was created by increases in labor costs in excess of the lagging gains in output per man-hour. The increases in steel and aluminum prices in August reflected this pressure.

The magnitude of wage inflation is likely to be somewhat smaller in the year ahead. Business recovery usually is conducive to greater gains in output per man-hour as the rise in employment tends to lag behind increasing output. There is some evidence that a similar pattern is developing during the current recovery. While precise data are not available, the recent automobile settlement appears to have increased total labor costs by about four per cent, or less than in the 1955-57 period. Although this rise in labor costs still exceeds national gains in output per manhour, the net rise in unit labor costs appears likely to be smaller than in recent years. Hence the wage inflation, while still a factor, could be less important than it has been.

### The budget deficit

The fact that the federal government is faced with a large increase in deficit financing is the most important single factor behind our present fear of inflation. We properly are concerned about the inflationary effects of a budget deficit.

The government's budgetary defi-

cits are among the most powerful creators of inflation. However, it is not the effect of a single budget which is important. Rather it is the manner in which the price inflation created by such deficits leads to new increases in government expenditures and thus to bigger and bigger deficits as spending outpaces tax revenues. It is this spiral which has

## WHAT WILL GOVERNMENT SPEND?

There's no talk any more of \$60 or \$70 billion budgets. There's a special problem in 1959. See **"Budget battle: Keep lid on spending"** Page 40

created the most serious inflationary consequences in the past.

A budget deficit of more than \$12 billion, such as that projected for the current fiscal year (July 1, 1958, to June 30, 1959) is a serious matter. Such a deficit is inflationary. How inflationary, however, depends largely on how the financing of it affects our money supply.

There have been only moderate changes in the volume of demand deposits and in money in circulation in the past two years.

	Demand deposits	Currency outside the banks	Total
	(billions of dollars)		
Aug. 1956	\$104.5	\$27.5	\$131.9
Aug. 1957	105.1	27.8	132.9
Aug. 1958	107.6	28.0	135.6

Between August 1957 and August 1958, total demand deposits and currency increased by only \$2.7 billion or two per cent. A smaller rise took place between August 1956 and August 1957. Thus, our money supply has been expanding at less than the three per cent long-term rate.

However, the financing of the federal budget deficit will inflate the supply of money and credit to the extent that new government securities are sold to the banks.

The present outlook is for the commercial banks to carry the major burden of this financing.

It is not certain, however, even if the banks finance the entire budgetary deficit, that it will result in an equivalent rise in money supply. Much of the \$8 billion increase in the commercial banks' holdings of government securities in the year ending August 1958 did not result in larger demand deposits. However, total time and savings deposits increased by \$10 billion during that period. To the extent that these government securities can be sold to others rather than to commercial banks, the attending inflationary pressure would be reduced. It is important, therefore, to create the atmosphere which will encourage these and other groups to buy government securities. Strong measures to improve the federal budgetary picture would be among the most helpful in achieving this objective.

Meanwhile, some of the danger in this area will be sharply reduced as a result of business recovery.

The increase in the deficit projected for the current fiscal year results from a decline in revenues (\$2.1 billion) and an increase in expenditures (\$7.3 billion). For the following fiscal year, the projected deficit is cut in half due largely to an anticipated rise in tax revenues. The projected large deficit, then, is not expected to pyramid into a still larger deficit in the following year if government spending for 1959-60 can be restrained.

It should be possible to curtail spending as a result of business recovery.

Economists usually point out that it is the cash deficit or surplus which determines the inflationary or deflationary effects of a budget. The cash budget includes the operations of the various government pension funds and of the social security and unemployment insurance funds. On balance, the operation of these funds has usually resulted in a net withdrawal of cash from the economy:

Fiscal year ending June 30	Administrative budget	Cash Budget	Net cash flow from funds
	(billions of dollars)		
1956	\$+ 1.6	\$+ 4.5	\$+2.9
1957	+ 1.6	+ 2.1	+0.5
1958	— 2.8	— 1.5	+1.3
1959 (est.)	—12.2	—13.7	—1.5

During the current fiscal year, in contrast, a net payment of cash by

government is anticipated so that the cash deficit is forecast at \$13.7 billion or \$1.5 billion higher than the administrative deficit.

With business recovery, the deficit in the cash budget should be reduced more rapidly than the deficit in the administrative budget.

An examination of the trend of unemployment compensation payments shows why.

Unemployment insurance			
January-May			
	1957	1958	Change
(millions of dollars)			
Tax collections	\$1,094.5	\$1,064.6	\$ -29.9
Benefits paid	851.8	1,875.5	+1,023.7

At the low point of the recession—the first five months of 1958—total unemployment benefits rose by more than \$1 billion as compared with a year earlier, while tax collections fell by \$30 million.

As recovery proceeds, the unemployment benefits paid will decline sharply.

At the same time, tax collections will rise because of greater employment and the probability of higher effective tax rates in states with merit rating.

The recently amended Social Security Act provided for larger benefits but also established higher tax rates to go into effect in January. These changes are expected to put the system on a self-sustaining basis. This will also act to reduce the cash deficit.

Thus various funds should provide a moderate deflationary influence instead of adding to the inflationary pressure as at present.

Business recovery through its favorable impact on tax revenues and upon the net flow of cash into the unemployment insurance and other funds also should act to moderate the threat of inflation rather than to increase it. It is vital, however, that new government spending programs be limited and that old programs be reviewed and pruned to wipe out the deficit. It will make little economic sense if full recovery does not bring about a budgetary surplus.

As for other types of government action, both Congress and the Administration have shown awareness of the inflation problem.

Congress' unwillingness to reduce taxes last year indicated its concern over budgetary deficits.

The President's veto of several measures involving larger government spending and the order to cut back federal personnel by two per cent indicate that the Administra-

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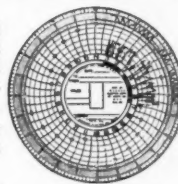
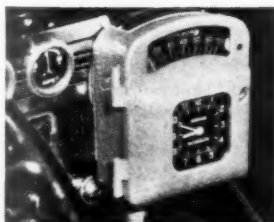


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## INFLATION

continued

### Public awareness of inflation may help stop it

tion realizes the need for economy. The fact that the rise in expenditures stems largely from activities not directly related to defense or to combating the recession indicates that there is room for cutting the \$80 billion projected spending. Government spending can and must be cut.

There is certainly no reason for complacency over the federal budgetary situation. Nor should we ignore the difficulties of control.

The Federal Reserve Board has already given notice that it will use its powers to curb price inflation. Early in August, margin requirements on security loans were raised from 50 per cent to 70 per cent. In October came a further raise to 90 per cent. There also have been two increases in the discount rate—from 1¾ per cent to two per cent, and then to 2½ per cent. A year earlier the discount rate was 3½ per cent so that these are only mild steps. The Federal Reserve, as part of its easy money policy starting in November 1957, had built up excess reserves at the member banks to about \$600 million as compared with a net deficiency of reserves of about \$500 million before that time. Now, as part of the tightening-up process, this situation has been reversed. Excess reserves have been almost wiped out. Just as the Federal Reserve indicated early in the recession that it would act to make credit more abundant, so it has now indicated early in recovery that it will act to tighten credit.

Many have pointed out that this creates difficulty in marketing government bonds. They have also pointed out that monetary policy alone cannot curb price inflation, as we have seen in the past.

This is all true. But it seems equally true that we must develop a growing public awareness of the dangers that are inherent in inflation, whether it be fiscal, monetary or wage.

The national objective of a high level employment economy must be supplemented by a national objective to take vigorous action against inflation.

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FREEDOM OFTEN APPEARS to be more desirable as a concept than as an actuality.

Men who have it begrudge the effort that maintaining it requires. One group, then another, asks government to assure its security. Each time government heeds the request freedom diminishes because the only way to legislate personal security is to prohibit risks.

Inevitably the prohibitions are more and the security is less than anticipated. The ponderous machinery of government cannot grip effectively the petty problems of individuals

Wasteful fumbling results.

So it has been with us.

For 30 years the rights of the federal government have been expanding. The rights of citizens have decreased. Down this path free nations before us have drifted back to despotism.

Chief Justice of the United States Earl Warren seems inclined to hasten our progress in this direction. He told a western audience:

"We hear a great deal these days about the relationship of the federal government to the state governments and in some parts of the country the cry is being heard that the federal government is infringing upon what is known as states' rights.

"There may have been times in our history when the federal government became too deeply involved in matters that were the proper prerogatives of the states but in my opinion this has generally happened only when the states themselves have failed to meet the needs of the people.

"When the state governments fail to satisfy the needs of the people, the people appeal to the federal government."

In offering this gratuitous opinion the Chief

Justice has given his support to a principle which, if adopted by Congress and the Administration, would mean loss of all public and fiscal control of government.

State governments cannot easily avoid doing what a majority of their people want and are willing to pay for.

But what people need is a matter of somebody's opinion, whim, or prejudice. Undoubtedly people in every state need something—though not necessarily the same thing—nor would all the people in the state agree that any given need should remain unsatisfied if others were met. Who among us would risk the political consequences of deciding between them?

Who, again, would dare raise the question of costs, once we accept that the federal government's duty is to meet human needs? If that is to be the goal, then we must commit ourselves to provide the maximum benefit at whatever price.

The resulting fiscal strain would be unlikely to serve the ends that the Chief Justice sees as paramount today.

"Today we are in a great competition with the Soviet Union," he said, "seeking to demonstrate to the millions of uncommitted peoples all over the world that the new democratic society affords a greater measure of human welfare than the totalitarian systems established in the name of communism."

It may be time to remind the Chief Justice that a serious objection to "the totalitarian systems established in the name of communism" is that they permit men in high positions to decide what will advance the public good whether the people want it or not.

